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DOCTOR OF PHILOSOPHY

**Corporate Social Disclosure in Saudi Listed Companies**

Current Practice and Stakeholders' Perspectives

Alamoudi, May Abdulaziz

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# **Corporate Social Disclosure in Saudi Listed Companies: Current Practice and Stakeholders' Perspectives**

**May Abdulaziz Alamoudi**

A Thesis Submitted to the University of Dundee in Fulfilment of the Requirements for Award of the Degree of Doctor of Philosophy

**School of Social Sciences  
Accounting and Finance  
University of Dundee  
United Kingdom**

**May 2016**



In the name of Allah the most gracious  
and most merciful

## **DEDICATION**

**To the Soul of my father Abdulaziz, my devoted mother Khadijah, my loving husband Turki, and my sisters and brothers.**

**Thank you all for your love and support.**

# TABLE OF CONTENTS

<b>DEDICATION.....</b>	<b>III</b>
<b>TABLE OF CONTENTS .....</b>	<b>IV</b>
<b>LIST OF TABLES .....</b>	<b>IX</b>
<b>LIST OF FIGURES .....</b>	<b>XI</b>
<b>APPENDICES .....</b>	<b>XI</b>
<b>ACRONYMS.....</b>	<b>XIII</b>
<b>ACKNOWLEDGEMENTS .....</b>	<b>XIV</b>
<b>DECLARATION.....</b>	<b>XV</b>
<b>ABSTRACT.....</b>	<b>XVI</b>
<b>CHAPTER 1 : INTRODUCTION.....</b>	<b>1</b>
1.1 Introduction.....	2
1.2 Motivations for the Study .....	5
1.3 Research Objectives and Questions .....	8
1.4 Research Methodology and Methods .....	9
1.5 Thesis Structure.....	12
<b>CHAPTER 2 : LITERATURE REVIEW (PART 1) .....</b>	<b>14</b>
2.1 Introduction.....	15
2.2 Background to CSD.....	15
2.2.1 Corporate Social Responsibility Leading to CSD.....	15
2.2.2 Definition of CSD .....	21
2.2.3 CSD Information .....	24
2.2.4 Historical Development of CSD.....	27
2.2.5 Various Terms that could refer to CSD.....	29
2.2.5.1 Social Accounting .....	30
2.2.5.2 Sustainability.....	31
2.3 Motivations for CSD.....	33
2.3.1 Managers' Motivations for CSD .....	34
2.3.1.1 Corporate Image, Reputation, and Self-Interest .....	35

2.3.1.2 Managing Stakeholders .....	36
2.3.1.3 Legal Obligations .....	36
2.3.1.4 Funding Pressure .....	37
2.3.1.5 Gaining Legitimacy .....	38
2.3.1.6 Pressure Groups .....	39
2.3.2 Users' Perspectives of CSD .....	41
2.3.2.1 Public Rights to Information .....	42
2.3.2.2 Investment Decisions.....	43
<b>2.4 CSD and Company Characteristics .....</b>	<b>44</b>
2.4.1 Size .....	45
2.4.2 Profitability .....	47
2.4.3 Industry .....	47
<b>2.5 Summary .....</b>	<b>49</b>
 <b>CHAPTER 3 : LITERATURE REVIEW (PART 2) .....</b>	 <b>51</b>
<b>3.1 Introduction .....</b>	<b>52</b>
<b>3.2 Studies of CSD in Arab MENA countries .....</b>	<b>53</b>
3.2.1 Studies in GCC Countries .....	57
3.2.2 Studies in Egypt .....	64
3.2.3 Studies in Jordan .....	66
3.2.4 Studies in Libya.....	69
3.2.5 Cross-Country and Other Studies .....	75
<b>3.3 Summary and Conclusion .....</b>	<b>82</b>
 <b>CHAPTER 4 : SAUDI CONTEXT .....</b>	 <b>84</b>
<b>4.1 Introduction.....</b>	<b>85</b>
<b>4.2 Background of Saudi Arabia.....</b>	<b>85</b>
<b>4.3 Political System.....</b>	<b>88</b>
4.3.1 Background Information .....	88
4.3.2 Government System .....	89
4.3.2.1 The Council of Ministers .....	90
4.3.2.2 The Consultative Council (Majlis Al-Shura) .....	90
<b>4.4 Saudi Arabian Culture .....</b>	<b>90</b>
<b>4.5 Legal System.....</b>	<b>93</b>
<b>4.6 Economic System.....</b>	<b>97</b>
4.6.1 Background Information .....	97
4.6.2 The Role of Oil in the Saudi Arabia Economy .....	98
4.6.3 Developments Plans .....	99
4.6.4 Privatisation .....	101
4.6.5 The Economy's Impact on Accounting.....	102
<b>4.7 Financial System.....</b>	<b>102</b>
4.7.1 Ministry of Commerce and Industry .....	103
4.7.2 The Saudi Arabian Monetary Agency (SAMA) .....	103

4.7.3 The Capital Market Authority (CMA) .....	104
4.7.4 Saudi Stock Market (TADAWUL) .....	104
<b>4.8 Business Regulatory Environment in Saudi Arabia .....</b>	<b>108</b>
4.8.1 The Companies Law .....	108
4.8.2 The Accountants Law .....	109
4.8.3 The Income Tax and Al-Zakat Law .....	110
<b>4.9 Accounting in Saudi Arabia .....</b>	<b>111</b>
4.9.1 Accounting Education in KSA .....	111
4.9.2 Accounting and Auditing Profession in KSA.....	112
4.9.3 SOCPA .....	116
<b>4.10 Kingdom's Role in Environmental Protection .....</b>	<b>117</b>
<b>4.11 Summary and Conclusion .....</b>	<b>118</b>
<b>CHAPTER 5 : THEORETICAL FRAMEWORK .....</b>	<b>120</b>
<b>5.1 Introduction .....</b>	<b>121</b>
<b>5.2 The Notion of Theory .....</b>	<b>122</b>
5.2.1 Definitions of Theory .....	122
5.2.2 Formulation of Theory.....	123
5.2.3 Role of Theory in Accounting.....	124
<b>5.3 Stakeholder Theory Concept and Historical Development.....</b>	<b>126</b>
<b>5.4 Variants of Stakeholder Theory .....</b>	<b>130</b>
<b>5.5 Stakeholder Theory and CSD.....</b>	<b>136</b>
<b>5.6 Limitations of Stakeholder Theory .....</b>	<b>144</b>
<b>5.7 Stakeholder Theory in the Present Study .....</b>	<b>146</b>
<b>5.8 Summary and Conclusion .....</b>	<b>150</b>
<b>CHAPTER 6 : METHODOLOGY AND METHODS.....</b>	<b>151</b>
<b>6.1 Introduction.....</b>	<b>152</b>
<b>6.2 Research Methodology .....</b>	<b>153</b>
6.2.1 Assumptions about the Nature of Social Science .....	153
6.2.2 Assumptions about the Nature of Society .....	157
6.2.3 Research Paradigms.....	158
6.2.4 The Research Paradigm Adopted in this Thesis .....	162
<b>6.3 Method.....</b>	<b>164</b>
6.3.1 Content Analysis .....	166
6.3.1.1 Use of the Content Analysis Method in Accounting and Finance .....	168
6.3.1.2 Stages in the Content Analysis Process .....	168
6.3.1.3 Reliability and Validity.....	171
6.3.2 Questionnaire .....	172
6.3.2.1 Types of Questionnaire.....	173

6.3.2.2 Advantages and Limitations of Questionnaires .....	173
6.3.2.3 Structure and Design of Questionnaire .....	174
6.3.2.4 Questionnaire Sample.....	177
<b>6.4 Summary and Conclusion .....</b>	<b>178</b>
<b>CHAPTER 7 : CONTENT ANALYSIS .....</b>	<b>180</b>
<b>7.1 Introduction.....</b>	<b>181</b>
<b>7.2 Data and Analysis .....</b>	<b>182</b>
7.2.1 Sample Choice and Sampling Unit.....	183
7.2.1.1 The Research Sample .....	185
7.2.1.2 Content and Format of Annual Reports .....	186
7.2.2 Proportion of a Page as Coding Unit .....	187
7.2.3 Categories of Disclosure .....	190
7.2.4 CSD Data Coding.....	191
<b>7.3 Results of the Content Analysis.....</b>	<b>193</b>
7.3.1 CSD Results for the Total Sample.....	193
7.3.2 Social Disclosure within the Main Disclosure Categories .....	196
7.3.2.1 Environmental Disclosure.....	198
7.3.2.2 Employee Disclosure.....	202
7.3.2.3 Society Disclosure .....	207
7.3.2.4 Customer Disclosure .....	211
7.3.3 Analysis by Sector .....	212
7.3.4 Analysis of the Nature of CSD.....	219
7.3.4.1 News Categorisation.....	219
7.3.4.2 Auditability of Information.....	222
7.3.5 Location of Disclosure within the Annual Report .....	225
7.3.6 Analysis of Separate Sustainability and Social Responsibility Reports .....	226
<b>7.4 Advantages and Limitations of the Content Analysis .....</b>	<b>230</b>
<b>7.5 Discussion and Conclusion .....</b>	<b>232</b>
<b>CHAPTER 8 : QUESTIONNAIRE SURVEY .....</b>	<b>238</b>
<b>8.1 Introduction.....</b>	<b>239</b>
<b>8.2 Questionnaire Design for the Study .....</b>	<b>239</b>
8.2.1 Developing the Questionnaire and the Pilot Study .....	242
8.2.2 Questionnaire Sample and Administration.....	244
8.2.2.1 Questionnaire Response Rate.....	247
8.2.3 Reliability and Validity of Questionnaire Responses .....	248
8.2.4 Statistical Techniques Employed for Data Analysis .....	249
<b>8.3 Respondents' Backgrounds .....</b>	<b>250</b>
<b>8.4 The Results of the Questionnaire .....</b>	<b>252</b>
8.4.1 Importance assigned by Saudi Companies to Purposes for Producing Annual Reports.....	253
8.4.2 Importance to Wider Society of Disclosing Corporate Social Responsibility Items in Companies' Annual Reports .....	258
8.4.3 Agreement Regarding the Right of Stakeholders to Information in Companies' Annual Reports about Actions that Might Affect them .....	261



8.4.4 Agreement with Statements Concerning Companies .....	264
8.4.5 Importance of Potential Benefits to Companies that can be achieved by Reporting CSR Information .....	267
8.4.6 Importance of Potential Benefits to Society that can be achieved by Reporting CSR Information ....	269
8.4.7 Agreement Regarding Factors that may Deter Companies from Reporting CSR Information .....	272
8.4.8 Agreement Regarding Statements Related to CSR and Disclosure .....	279
8.4.9 Agreement Regarding Possible Methods that can be used to Disclose CSR Information .....	288
8.4.10 Agreement Regarding Suitable Locations to Disclose CSR Information .....	289
8.4.11 Agreement Regarding Possible Frameworks by which CSR Information should be Disclosed .....	292
<b>8.5 Summary and Discussion .....</b>	<b>295</b>
 <b>CHAPTER 9 : CONCLUSION.....</b>	 <b>301</b>
<b>9.1 Introduction .....</b>	<b>302</b>
<b>9.2 Summary of the Research .....</b>	<b>302</b>
<b>9.3 Research Findings .....</b>	<b>304</b>
9.3.1 Findings from the Content Analysis .....	305
9.3.2 Findings from the Questionnaire Survey .....	310
<b>9.4 Limitations and the Problems of Conducting the Research .....</b>	<b>315</b>
<b>9.5 Contribution to Knowledge .....</b>	<b>317</b>
<b>9.6 Future Research Avenues.....</b>	<b>319</b>
 <b>REFERENCES.....</b>	 <b>322</b>
 <b>APPENDICES .....</b>	 <b>29</b>

# LIST OF TABLES

Table 3.1: Studies on CSD in Arab MENA Countries .....	54
Table 3.2: Summarising the Number of Studies by Country .....	56
Table 4.1: Size of the Saudi Stock Market as at the Second Quarter of 2012 .....	107
Table 5.1: Development and History of Stakeholder Concept and Theory .....	127
Table 5.2: Stakeholder Theory Models .....	130
Table 6.1: Burrell and Morgan's (1979) Subjectivist and Objectivist Approaches and Assumptions about the Nature of Social Science Research.....	153
Table 6.2: The Characteristics of Regulation and Radical Change Approaches of the Nature of Society.....	157
Table 7.1: CSD based on the Percentage of Annual Reports .....	193
Table 7.2: CSD based on the Number of Pages .....	194
Table 7.3: Total Disclosure by Companies for each Sub-Category of Disclosure .....	197
Table 7.4: Total CSD by Sector .....	213
Table 7.5: Disclosure by Sector .....	215
Table 7.6: Nature of CSD- News Categorisation .....	220
Table 7.7: Nature of CSD- Auditability of Information .....	223
Table 7.8: Location of CSD based on the number of Pages .....	225
Table 8.1: Number of Questionnaire Respondents from Each Group .....	247
Table 8.2: Demographical Summary of Respondents .....	251
Table 8.3: Level of Importance Assigned by Saudi Companies to Purposes for Producing the Annual Reports by Company Management .....	254
Panel A: Means, Standard Deviations, and K-W test .....	254
Table 8.3: Level of Importance Assigned by Saudi Companies to Purposes for Producing the Annual Reports by Company Management .....	257
Panel B: M-W test .....	257
Table 8.4: Level of Importance to Wider Society of Disclosing CSR Items in Companies' Annual Reports .....	258
Panel A: Means, Standard Deviations, and K-W test .....	258
Table 8.4: Level of Importance to Wider Society of Disclosing CSR Items in Companies' Annual Reports .....	260
Panel B: M-W test .....	260
Table 8.5: Level of Agreement regarding the Right of Stakeholders to Information in Companies' Annual Reports about Actions that might affect them .....	261
Panel A: Means, Standard Deviations, and K-W test .....	261
Table 8.5: Level of Agreement regarding the Right of Stakeholders to Information in Companies' Annual Reports about Actions that might affect them .....	263
Panel B: M-W test .....	263
Table 8.6: Level of Agreement with Statements Concerning Companies .....	265
Panel A: Means, Standard Deviations, and K-W test .....	265
Table 8.6: Level of Agreement with Statements Concerning Companies .....	266
Panel B: M-W test .....	266
Table 8.7: Level of Importance of Potential Benefits to Companies that can be achieved by Reporting CSR Information .....	267
Panel A: Means, Standard Deviations, and K-W test .....	267
Table 8.7: Level of Importance of Potential Benefits to Companies that can be achieved by Reporting CSR Information .....	269
Panel B: M-W test .....	269

Table 8.8: Level of Importance of Potential Benefits to Society that can be achieved by Reporting CSR Information .....	270
Panel A: Means, Standard Deviations, and K-W test .....	270
Table 8.8: Level of Importance of Potential Benefits to Society that can be achieved by Reporting CSR Information .....	271
Panel B: M-W test .....	271
Table 8.9: Level of Agreement regarding Factors that may Deter Companies' from Reporting CSR Information .....	272
Panel A: Means, Standard Deviations, and K-W test .....	272
Table 8.9: Level of Agreement regarding Factors that may Deter Companies' from Reporting CSR Information .....	276
Panel B: M-W test .....	276
Table 8.10: Level of Agreement regarding Statements Related to CSR and Disclosure.....	280
Panel A: Means, Standard Deviations, and K-W test .....	280
Table 8.10: Level of Agreement regarding Statements Related to CSR and Disclosure.....	284
Panel B: M-W test .....	284
Table 8.10: Level of Agreement regarding Statements Related to CSR and Disclosure.....	286
Panel C: Additional Statement to some Groups .....	286
Table 8.11: Level of Agreement regarding Possible Methods that can be used to Disclose CSR Information .....	289
Panel A: Means, Standard Deviations, and K-W test .....	289
Table 8.11: Level of Agreement regarding Possible Methods that can be used to Disclose CSR Information .....	289
Panel B: M-W test .....	289
Table 8.12: Level of Agreement regarding Suitable Locations to Disclose CSR Information .....	290
Panel A: Means, Standard Deviations, and K-W test .....	290
Table 8.12: Level of Agreement regarding Suitable Locations to Disclose CSR Information .....	291
Panel B: M-W test .....	291
Table 8.13: Level of Agreement regarding Possible Frameworks by which CSR Information should be disclosed .....	292
Panel A: Means, Standard Deviations, and K-W test.....	292
Table 8.13: Level of Agreement regarding Possible Frameworks by which CSR Information should be disclosed .....	294
Panel B: M-W test .....	294

## LIST OF FIGURES

Figure 2.1: The Pyramid of Corporate Social Responsibility .....	18
Figure 4.1: Map of the Kingdom of Saudi Arabia.....	87
Figure 4.2: The Structure of the Legal System in Saudi Arabia.....	94
Figure 5.1: Stakeholder View of Firm.....	128
Figure 6.1: Four Paradigms for the Analysis of Social Theory.....	159
Figure 7.1: Proportion of Companies Providing Disclosure across the Disclosure Categories.....	195
Figure 7.2: Proportion of Environmental Disclosure Sub-Categories .....	199
Figure 7.3: Proportion of Employee Disclosure Sub-Categories .....	207
Figure 7.4: Proportion of Society Disclosure Sub-Categories .....	209

## APPENDICES

Appendix 7.1: Content Analysis Decision Rules .....	352
Appendix 7.2: The Decision Rules for the Categories of CSD .....	353
Appendix 7.3: Analysis Grid Sheet .....	356
Appendix 7.4: Content Analysis Template for CSD .....	357
Appendix 7.5: Table of Listed Companies in Saudi Stock Market in 2012 .....	358
Appendix 8.1: The English Version of the Questionnaire Survey Showing All Responses Answers .....	362
Appendix 8.2: The Arabic Version of the Questionnaire Survey .....	371
Appendix 8.3: Response Frequencies on Each Statement of the Questionnaire Analysed by Stakeholder Groups .....	380

## ACRONYMS

CSR	Corporate Social Responsibility
CSD	Corporate Social Disclosure
KSA	Kingdom of Saudi Arabia
MENA	Middle Eastern and North African Countries
CMA	Capital Market Authority
SOCPA	Saudi Organisation for Certified Public Accountants
NGOs	Non-governmental organisations
GCC	The Gulf Cooperation Council
SAR	Saudi Riyal
SR	Saudi Riyal
SAMA	Saudi Arabia Monetary Agency
TADAWUL	The Saudi Stock Market
SOCPA	Saudi Organisation for Certified Public Accountants
SASC	Saudi Accounting Standards Committee
GRI	Sustainability Reporting Guidelines
SAGIA	Saudi Arabian General Investment Authority

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*Thank you...*

## **DECLARATION**

I, May Alamoudi, am the sole author of this thesis; that, unless otherwise stated, all references cited have been consulted by me; that the work of which the thesis is a record has been done by me, and that it has not been previously accepted for a higher degree.

Signature:

## **STATEMENT**

I confirm that the conditions of the relevant Ordinance and Regulations have been fulfilled.

Signature:



## **ABSTRACT**

This study aims to explore and identify empirically the current corporate social disclosure (CSD) practices of Saudi listed companies, and to determine the perspectives of a range of stakeholder groups towards corporate social responsibility (CSR) and CSD issues in Saudi Arabia. The study examines the CSD practices through determining the volume and the nature of the information provided by companies, and identifying any noticeable differences in such information across companies and amongst different sectors. The study also examines stakeholders' perspectives towards current CSD practices in Saudi Arabia including views on the motivations behind disclosing such information by companies and the factors that might deter or discourage companies from reporting such information. The results of the study are interpreted using a stakeholder perspective. The study uses content analysis to analyse companies' annual reports and standalone reports, and a questionnaire survey to ascertain the perceptions of stakeholders. The findings reveal that all companies in the sample provided at least some CSD in their annual reports with wide variation across companies and industries. The most widely disclosed information was related to the employees and society disclosure categories, respectively, followed by environmental disclosures while disclosures relating to customers and products were almost nil. The results also demonstrate that the majority of the questionnaire respondents believe in the right of all stakeholder groups to have access to CSD, but they think the most important reason behind providing CSD by organisations is to communicate with those parties and groups with financial interests due to the importance of such information for decision-making. Also, respondents highlighted 'the emphasis by companies on their economic rather than social performance', followed by 'society's lack of awareness regarding CSR information' and 'an absence of legal or similar regulatory requirements' as the most important reasons that might

deter companies from providing CSD information. In addition, respondents generally support mandatory mechanisms being put in place for Saudi companies to establish CSD.

## **Chapter 1 : Introduction**

## **1.1 Introduction**

Since the 1970s, there has been a steady increase in concern surrounding the effect of organisations on the society and environment that surrounds them (Gray et al., 1996). The term Corporate Social Responsibility (CSR) has been coined within the academic business literature, and has developed into a vital concept. CSR might be regarded as the main source behind the emergence of corporate social disclosure (CSD), as it could be argued that companies cannot usefully report their social and environmental responsibilities and their impacts if they are not responsible; and vice versa, if companies are socially and environmentally responsible then they will seek to provide evidence of their responsibility through reporting. This study will look into the level of CSD provided by Saudi listed companies' annual reports. In addition, the thesis will look at a variety of stakeholders' perspectives in regards to different CSR and CSD issues.

CSR has been defined as:

"The commitment of business to contribute to sustainable economic development working with employees, their families, the local community and society at large to improve their quality of life in ways that are both good for business and good for development" (World Bank, 2004).

Companies can demonstrate their social responsibility via CSD, which is defined by Gray et al. (1996) as:

"The process of communicating the social and environmental effects of organisations' economic actions to particular interest groups within society and to society at large. As such, it involves extending the accountability of organisations (particularly companies), beyond the traditional role of providing a financial account to the owners of capital, in particular, shareholders. Such an extension is predicated upon the assumption that companies do have wider responsibilities than simply to make money for their shareholders" (p. 3).

CSD can be considered to be an extension of the financial disclosure system which is in place to ensure the transparency of organisations' financial status. CSD focuses on how an organisation is doing in relation to issues such as the environment, staff welfare, customer relations and welfare, and society at large. These issues are included in the company's annual reports, offering potentially greater relevance to varied users beyond traditional financial reports (Gray et al., 1996). The awareness of stakeholders in the business community of the importance of reporting on the environment, social responsibility and ethical behaviour by organisations has been increasing over time (Zadek et al., 1997). Indeed, in countries with more developed industries, there is a clear trend towards the annual reports of organisations placing a greater emphasis on social and environmental issues as their reporting of such issues witnessed an increase over the years (Deegan and Gordon, 1996) (e.g. Deegan and Gordon, 1996; Gray et al., 1996; Gray et al., 1997; Hooghiemstra, 2000; Deegan et al., 2002; Gamerschlag et al., 2011).

Addressing the relevance of social and environmental issues by organisations, especially within developed countries, has led to an increase in academic research in the area<sup>1</sup> (Gray, 2001). Arguably, academic accounting researchers have brought social and environmental issues from the margins of the agenda, to the forefront of the research community. The volume of journals, research papers and conferences on these subjects is further evidence of this (Taha, 2010). Examples of conferences include the Centre for Social and Environmental Accounting Research (CSEAR) conferences in the UK, Australia, and elsewhere. In addition, many academic conferences typically include social and environmental issues as a significant

---

<sup>1</sup> Studies such as Zeghal and Ahmed, 1990; Gray et al., 1995a; Gray et al., 1995b; Gray et al., 1996; Adams et al., 1998; Adams and Kuasirikun, 2000; Deegan et al., 2002; Newson and Deegan, 2002; Perrini, 2005; Van der Laan Smith et al., 2005; Gray, 2006; Bebbington et al., 2008; Gray, 2008; Gamerschlag et al., 2011; Elsakit and Worthington, 2012.

part of their programmes, e.g. the Asia Pacific Interdisciplinary Research in Accounting (APIRA) conferences associated with Accounting, Auditing and Accountability Journal (AAAJ), the Interdisciplinary Research in Accounting (IPA) conferences and the Critical Perspectives on Accounting (CPA) conferences associated with the Critical Perspectives on Accounting Journal.

Companies can provide information to their users via different channels of which their annual reports are arguably the most important (Gray et al., 1996). This document provides an opportunity for an organisation to share, not only their financial performance, but also to share CSR information (Tilt, 1994; Bebbington et al., 2008). According to Adams et al. (1998), the annual report is a key source of information for a number of stakeholders. Other potential outlets to provide CSR information can also be used including standalone reports (Bebbington et al., 2008); in addition there has been a rapid growth since the turn of the century in the use of websites<sup>2</sup> in developed countries for disseminating this information (Elmogla, 2009). Many academic researchers have investigated reporting on social and environmental performance within annual reports, in line with a concern over social accounting and disclosure. Indeed, over a lengthy period, certain studies have specifically looked into the volume and characteristics of social and environmental information in organisations' annual reports in both developed countries (e.g. Ernst and Ernst, 1978; Deegan and Gordon, 1996; Gray et al., 1996; Gray et al., 1997; Hooghiemstra, 2000; Deegan et al., 2002; Van der Laan Smith et al., 2005; Gamerschlag et al., 2011) and developing countries (e.g. Tsang, 1998; Belal, 2001; Gao et al., 2005; Haniffa and Cooke, 2005; Hanafi, 2006; Nazli, 2007; Mirfazli, 2008; Rizk et al., 2008; Aribi, 2009; Elmogla, 2009; Menassa, 2010;

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<sup>2</sup> Companies' websites may include companies' annual reports and companies' CSR standalone reports; in addition other information can also be included which can be frequently updated.

Farook et al., 2011; Hussainey et al., 2011; Mahadeo et al., 2011; Wang et al., 2012; Bayoud et al., 2012a; Bayoud et al., 2012b; Alghodban and Ramli, 2015; Razak, 2015).

Stakeholders are increasingly expecting to receive timely information about CSR performance which will help them to make decisions or take actions regarding organisations' behaviour (Swift, 2001). An organisation should consider the release of CSD information as a potential opportunity that can and should benefit the stakeholders and society as a whole (Naser and Baker, 1999). Thus, according to Wheeler and Elkington (2001), organisations must carefully consider their strategy with regards to social and environmental responsibility, and align it with the perceived needs of the stakeholders (identifying stakeholders they are targeting, what to report and when to release the information). Gray (1990) mentioned that the structure of providing CSR information allows management to effectively manage resources and inform the decision-makers of such use, and can maintain a positive social and environmental image within the wider public by informing them about the way in which an organisation is using its resources.

The rest of this chapter is organised as follows: Section 1.2 presents motivations for the study. Section 1.3 discusses the study's objectives and research questions, while Section 1.4 outlines the research methodology and methods. Section 1.5 summarises the thesis structure.

## **1.2 Motivations for the Study**

The increasing significance of CSD in recent years is part of the rationale for selecting this as a research topic. Much of the literature on CSR and disclosure is based on empirical research carried out in Western countries with developed industries and economies. Furthermore, much comparative research on CSR and disclosure has looked at these same developed

Western nations (Tsang, 1998), e.g. Ernst and Ernst (1978); Guthrie and Parker (1990); Camfferman and Cooke (2002); Newson and Deegan (2002); Perrini (2005); Chen and Bouvain (2009).

Gray et al. (1995a) mentioned that there are variations in the nature and volume of CSD across different nations. For example, an issue or a phenomenon that is considered a priority in one nation may not be relevant in another, or in a different period. Accordingly, the results of research based in developed countries are not necessarily applicable when looking at developing countries due to a multitude of social, political and economic factors (Tsang, 1998). Baralexis (2004), in the context of financial reporting, reported that this is because organisations operating in developing countries are often affected by issues such as poor management, having unsophisticated users of information, and being unlisted, amongst other factors. As a result of this, CSD may often be seen to be different in developing countries when compared to more developed economies. Tsang (1998) stated that "though some improvements have been made...there is still a relative paucity of empirical studies on CSR practices in developing and newly industrialised countries" (p. 624). A number of studies that have been carried out in developing countries were based around the context of newly industrialised countries such as Malaysia and Singapore (e.g. Tsang, 1998; Newson and Deegan, 2002; Ahmad et al., 2003; Smith et al., 2007; Amran and Devi, 2008), as well as a range of African nations such as South Africa (e.g. Dawkins and Ngunjiri, 2008; Hönke et al., 2008; Mitchell and Hill, 2009), and, in particular, Nigeria (e.g. Uwuigbe and Uadiale, 2011; Uwuigbe and Jimoh, 2012; Akinpelu et al., 2013). Therefore, this perceived lack of studies can be considered a limitation for those undertaking future research. Given the limited studies of CSR and disclosure in developing countries, people have called for more attention



since, at least, the 1990s. For example, Maunders et al. (1990), Samuels (1990), and Gray et al. (1996) have suggested that there is a far greater need for social accounting in developing nations than in the West. Wallace (1990) stated that:

"...there is an urgent need for a deeper understanding of accounting systems in developing countries. This need can only be fulfilled by intensive research of those issues peculiar to developing countries...More descriptive studies are needed on various developing countries...not reported in the literature...The scope of accounting should not be limited to financial reporting and professional status of accountants...Little has been written on the state of management and social accounting (including environmental disclosure)" (p. 44).

In relation to the Arab Middle Eastern and North African countries (Arab MENA countries), there is still relatively limited material on CSR and disclosure practices (see, for example, Abu-Baker and Naser, 2000; Al-Khater and Naser, 2003; Jahamani, 2003; Hanafi, 2006; Kamla, 2007; Elmogla, 2009; Pratten and Mashat, 2009; Menassa, 2010; Mandurah et al., 2012; Bayoud et al., 2012a; Razak, 2015), which reveals a need for further research in this area of the world and in Saudi Arabia in particular.

For the purpose of this thesis, although conducting comparative research in CSD, i.e. looking at two or more nations was considered, this was not pursued as an option as it was thought that it would dilute the quality of the research, due to time restraints limiting the empirical scope. It was considered an in-depth analysis of a single Gulf nation, would be the preferred option. Weetman (2006) is an advocate of focusing a study on an individual nation, arguing that it leads researchers to "recognise and discuss the country specific context rather than set it to one side or assume it does not exist" (p. 364); this thesis focuses on Saudi Arabia.

This study has been designed to explore CSD within the context of a developing country, Saudi Arabia. The chosen country is of special interest for two reasons: (i) the limited

number of studies conducted within Arab MENA countries' contexts in general and in the Gulf Cooperation Council (GCC) countries in particular of which Saudi Arabia constitutes an important part; and (ii) Saudi Arabia is the largest free market economy in the Middle East and North Africa. The Kingdom controls one quarter of the entire world's oil reserves, and it is the biggest oil producer in the world. Accordingly, Saudi Arabia provides a distinctive opportunity to study disclosure practices and related issues in a developing country and in an emerging capital market.

### **1.3 Research Objectives and Questions**

The main aims of the current study are: (i) to examine the current CSD practices in the annual reports of Saudi listed companies<sup>3</sup>; and (ii) to investigate various stakeholders' perspectives in regards to a range of CSR and CSD issues in Saudi Arabia. In order to achieve these two aims, the main research questions this study tries to answer can be stated as follows:

1- To what extent do listed companies in Saudi Arabia provide CSD information and what is the nature of that information?

- What kinds of information have been disclosed (i.e. environmental, employee, society, and customer disclosure, or other) in the annual reports of Saudi companies?
- What is the nature of CSD provided by Saudi companies (i.e. news categorisation, auditability of information, and evidence of information<sup>4</sup>)?
- Where is CSD information being reported within the annual reports?

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<sup>3</sup> This study primarily focuses on companies' annual reports to examine CSD practices by Saudi listed companies in 2012. However, it also includes any CSR standalone reports which exist as it seemed pertinent to also explore these disclosures, but only three companies provided such reports in the chosen period.

<sup>4</sup> News categorisation consists of good, bad and neutral news. Auditability of information consists of auditable and nonauditable information, and evidence of information consists of narrative, quantitative and monetary information.

2- Is there any apparent consensus across Saudi listed companies, or amongst different types of companies (sectors), concerning the nature and volume of information that is disclosed?

3- What, if any, are the differences in perception about CSR and CSD amongst different stakeholder groups in Saudi Arabia (i.e. managers, employees, shareholders/investors, the Capital Market Authority (CMA), and academics)?

- How do stakeholders perceive the importance of CSR and disclosure issues?
- What are the perceived factors behind any absence or lack of disclosing CSR information?
- What is perceived as being the best method/ location/ framework to provide CSR information?

This study may help in filling a gap in the literature through delivering a necessary piece of literature relating to CSD in Saudi Arabia, as existing research is limited. It will analyse the CSD performance of Saudi listed organisations, in addition to providing the perspective of stakeholders about CSR and CSD issues in a specific developing country. The study should provide grounding for research in other developing nations, especially the Gulf Cooperation Council countries. Furthermore, the study will look at possible opportunities and barriers to CSD practices in the country.

#### **1.4 Research Methodology and Methods**

The interpretive paradigm, as presented by Burrell and Morgan (1979), is the philosophy used for this study. Saunders et al. (2012) have suggested that the act of selecting and challenging a paradigm empowers the researcher to achieve a good understanding of the social phenomena in question. According to Saunders et al. (2012), the interpretive paradigm

forms the basis for the general goal of understanding how the world is understood. Furthermore, it is the role of the researcher to identify possible "irrationalities" within the paradigm (p. 142). Consistent with an interpretive approach, an anti-positivist epistemology, a nominalistic ontology, an intermediate viewpoint on human nature, and an ideographic methodology are adopted. To interpret the disclosure results and the Saudi stakeholders' perceptions, a stakeholder theoretical framework was used.

Within the existing literature, several approaches have been used to assess the CSD within companies' annual reports, with content analysis being a favoured method. It focuses on the volume and the nature of information being disclosed (e.g. Ernst and Ernst, 1978; Guthrie and Mathews, 1985; Guthrie and Parker, 1989; Zeghal and Ahmed, 1990; Patten, 1991; Patten, 1992; Gray et al., 1995a; Gray et al., 1995b; Deegan and Gordon, 1996; Deegan and Rankin, 1996; Hackston and Milne, 1996; Adams et al., 1998; Buhr, 1998; Neu et al., 1998; Tsang, 1998; Unerman, 2000; Belal, 2001; Deegan et al., 2002; Newson and Deegan, 2002; Campbell et al., 2003; Chambers et al., 2003; Gao et al., 2005; Haniffa and Cooke, 2005; Bayoud et al., 2012a; Bayoud et al., 2012b; Razak, 2015). The first and second research questions are proposed to be answered by using both the qualitative and quantitative aspects of content analysis to investigate the CSD offered within Saudi companies' annual reports in 2012<sup>5</sup>. It is applied to examine the extent to which, if at all, Saudi companies do provide CSD information in their annual reports; the type and volume of the provided information; the differences in the volume of information between the main areas of disclosure (environment, employees, community, and customer); the differences in the nature or volume of disclosure between different economic sectors; the nature of CSD; the location of CSD information

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<sup>5</sup> Chapters 6 and 7 detail content analysis along with the justifications for using it in this study.

within the annual reports; and providing an analysis of the separate sustainability and social responsibility reports (of which there were only three).

A second popular method of research that will be employed to discover stakeholders' perspectives regarding CSR and disclosure practices by Saudi listed companies is the questionnaire survey (e.g. Tilt, 1994; Abu-Baker, 1995; Jaggi and Zhao, 1996; Deegan and Rankin, 1997; Tilt, 1997; Deegan and Rankin, 1999; Williams, 1999; Belal, 2001; Newson and Deegan, 2002; Ahmad, 2004; Bayoud et al., 2012a; Bayoud et al., 2012b). Different stakeholder groups who are considered to have significant relationships with business institutions and whose perceptions will be very important in portraying a general picture about CSR and CSD in Saudi Arabia are chosen: namely managers, employees, shareholders/investors, the Capital Market Authority employees (CMA) and academics. They were asked to point out their views on issues related to CSR and disclosure, obtained both from the literature and from the results of the content analysis that has been applied. The research will focus on issues such as how CSD is perceived in Saudi Arabia and the importance of CSD for different stakeholder groups. The stakeholders will be asked about the importance of different types of CSR information to them, the right of stakeholders to have CSR information, the reasons for providing CSR information, the benefits of such information to society and to the organisation, factors behind the absence of such information, the methods that can be used to disclose CSR information, suitable locations for CSD information, and mechanisms by which CSR information could best be disclosed.

For this study, both methods, content analysis and a questionnaire survey, were chosen as they complement each other, and will enable a reasonably comprehensive analysis of CSD practices in the annual reports of Saudi listed companies and how they are viewed.

## **1.5 Thesis Structure**

The thesis consists of nine chapters. This chapter provides an overview of the research topic: the study's motivations, the aim, objectives and the research questions. Also the potential contributions have been outlined.

Chapter 2 reviews the relevant extant literature related to CSD such as: background of CSD (including CSR leading to CSD, definitions of CSD, CSD information, the historical development of CSD, and various terminologies that could mean CSD); managers' motivations of CSD and users' perspectives of CSD; and CSD and company characteristics. Chapter 3 reviews studies of CSD which were conducted in Arab MENA countries including Saudi Arabia.

Chapter 4 provides background information on Saudi Arabia; it tries to put the research into the Saudi context by studying the local environmental factors that may have influenced and continue to influence corporate disclosure practices in Saudi Arabia. This includes a general presentation of the political, cultural, legal, economic, and financial systems in the country; an overview about business regulatory environment in Saudi Arabia; an overview about accounting in Saudi Arabia including accounting education, accounting regulation, the accounting and auditing profession, and SOCPA (Saudi Organisation for Certified Public Accountants); and the Kingdom's role in environmental protection.

Chapter 5 discusses the theoretical framework upon which this study is based. Within this chapter stakeholder theory is analysed in detail, on the premise that it is a basis for understanding CSD practices by Saudi organisations. The stakeholder concept is reviewed,

with two variants of stakeholder theory being outlined, and the use of the theory in this thesis is defended.

Chapter 6 describes the methodology and methods adopted in this thesis to achieve its objectives. The nature of social science, the nature of society and the research paradigms are also discussed. In addition, the methods that are used to collect the research data (content analysis method and the questionnaire survey) are considered in this chapter.

Chapters 7 and 8 are focused on the processes used in the gathering of data; the processes of conducting the content analysis, and the questionnaire design and administration respectively are explained as are the findings.

Chapter 9 provides an overall review of the findings of the empirical analysis, with a look at the potential explanations and implications for CSD within Saudi Arabia. Furthermore, there is a review of the main contributions of the study, discussion of the limitations and a look at opportunities for further research to progress beyond this study.

## **Chapter 2 : Literature Review (Part 1)**



## **2.1 Introduction**

CSD has increasingly been a focus of researchers' attention over the last three decades, and a number of key CSD related issues in the accounting literature will be highlighted in this chapter.

This chapter contains the following sections: Section 2.2 provides a background to CSD which includes CSR leading to CSD, the definition of CSD, CSD information, the historical development of CSD and identification of some terms used in this context. In Section 2.3, motivations for CSD are outlined while CSD and company characteristics are presented in Section 3.4. A summary of the chapter is presented in Section 2.5.

## **2.2 Background to CSD**

This section provides a general perception of the phenomenon under study: it aims to explain CSD and answer the question, what is it? Also, aspects related to CSD that are important in conducting this study will be discussed.

### **2.2.1 Corporate Social Responsibility Leading to CSD**

The purpose of this section is to shed light on what might at first sight be regarded as the main source behind the emergence of CSD, which is CSR. It could be argued that companies cannot report their social and environmental responsibilities and their impacts if they are not responsible; and vice versa, if companies are socially and environmentally responsible then arguably that should include a commitment to accountability and they will seek to provide evidence of their responsibility through reporting.

Responsibility, when it is used in the context of a corporation, may be taken to mean "responsibilities for actions which do not have purely financial implications and which are

demanding of an organisation under some (implicit or explicit) identifiable contract" (Gray et al., 1987, p. 4). The idea that the values, ethics and behaviour of firms can have a positive and/or negative impact upon society has been recognised, and there is a long history of the incorporation of these aspects in explaining the social responsibility of business (Momin, 2006).

There is a correlation in many Western capitalist economies between corporations and community, that is, companies often provide significant economic benefits to the community they operate in, and in return the community provides companies with important and vital elements for its survival, in the form of access to natural resources, employees, infrastructure, legitimacy, and customers (Reich, 1998; Bailey et al., 2000). It has therefore been maintained that corporations are social creations whose very existence depends on the willingness of the wider society to endure and support them (Reich, 1998). Accordingly, organisations' success and survival depends on the support provided by the wider society to them (Guthrie and Parker, 1989; Suchman, 1995).

Blowfield and Murray (2008) argued that there are a wide variety of CSR definitions typically informed by the questions that are being addressed. The role played by managers in companies, particularly with regard to how they manage their companies in a manner consistent with the requirements of society and providing a positive impact, is the main point of focus in this area of social science. Based on this, CSR has been varying defined as:

"The firm's considerations of, and response to, issues beyond the narrow economic, technical and legal requirements of the firm to accomplish social benefits along with the traditional economic gains which the firm seeks" (Davis, 1973, p. 312).

"The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organisations at a given point in time" (Carroll, 1979, p. 500).

"Actions that appear to further some social good, beyond the interests of the firm and that which is required by law" (McWilliams and Siegel, 2001, p. 117).

"The commitment of business to contribute to sustainable economic development working with employees, their families, the local community and society at large to improve their quality of life in ways that are both good for business and good for development." (World Bank, 2004).

Based on these aforementioned definitions it could be argued that CSD is part of CSR. According to Schwartz and Carroll (2003), there are two general schools of thought regarding the definitions of CSR: those who argue that the goal of the business is mainly to maximise profits within the limits of the law within what could be regarded as an emaciated commitment to the minimum level of ethical behaviour<sup>6</sup> (Levitt, 1958; Friedman, 1970); and the other school related to those that have suggested that business has a broader range of obligations towards society (Carroll, 1979; Epstein, 1987).

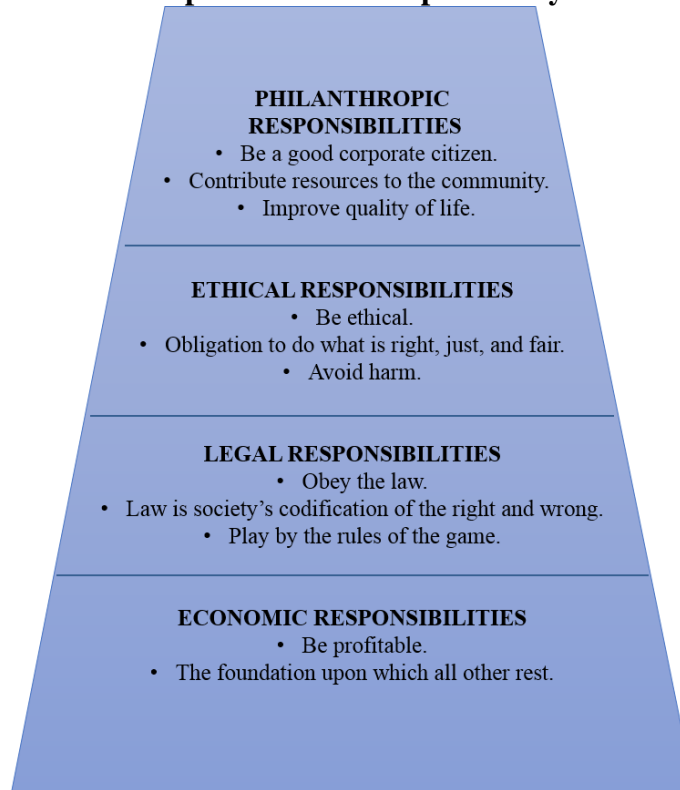
Carroll (1991) defined CSR in what now may be considered the most common way when he described a pyramid of CSR. He believed that CSR should involve a full range of business responsibilities, and should include four kinds of social responsibility - economic, legal,

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<sup>6</sup> Friedman (1970) raised the question of whether economic organisations have any responsibility other than the responsibility for maximising profits for the owners. He provided a doctrine of the social responsibility of business, which was enterprise focused merely on the issue of maximising profits. Based on that, the social responsibility of business is to use its resources and participate in activities that help in maximising profits; in other words, to enter into investments that are characterised by free and open competition without deception or fraud. Friedman believed that the responsibility of the corporate executive should focus on how to make money or profit rather than how to use that money. He believed that the benefit to society of these businesses is concentrated in the increase of wealth and providing job opportunities for workers. Thus, the managers do not have the right to act or spend the corporate profit on social matters because it is not their own money while it is the shareholders' money. He mentioned that there is a difference in the situation of the individual proprietor, as when the owner acts to reduce the returns of his enterprise in order to exercise his "social responsibility", he is spending his own money, not someone else's which is his right, so he did not believe in the existence of charitable activities or moral responsibilities as part of business objectives (Friedman, 1970). Friedman's view has been challenged by many researchers, such as Dusuki (2005).

ethical and philanthropic - which frame the issue of social responsibility through the stakeholder perspective. See Figure 2.1 below.

**Figure 2.1: The Pyramid of Corporate Social Responsibility**



**Source:** Carroll (1991, p. 42)

Carroll built his pyramid mainly on the economic responsibility that requires the organisation to 'be profitable', whereas legal responsibility occupies the second level of the pyramid, where the organisation must comply with the law and 'play by the rules of the game'. Ethical responsibilities are addressed in the third level of the pyramid where organisations have an 'obligation to do what is right, just and fair', while the top level of the pyramid is occupied by philanthropic responsibilities, which state that organisations should 'contribute resources to the community [and] improve the quality of life'. Carroll believed that organisations must treat and address the lower levels of the pyramid before they can consider the higher levels.

Carroll managed, through his pyramid, to formulate the basis for a reconsideration of the discussions on CSR related to outsourcing (Carroll, 1991).

There is still a lack of consensus as to the way CSR should be defined despite numerous efforts to do so. Dahlsrud (2008) has developed five dimensions of CSR through a content analysis of existing CSR definitions; he described these as: (i) the stakeholder dimension; (ii) the social dimension; (iii) the economic dimension; (iv) the voluntariness dimension; and (v) the environmental dimension. He found that there is quite a large degree of overlap between the existing definitions; however, he argued that none of the definitions actually defines the social responsibility of business but rather describes CSR as a phenomenon. Much of the confusion, according to Dahlsrud (2008) relates to what constitutes the social responsibility of business rather than the way CSR is defined.

Despite numerous attempts in recent decades to develop a specific definition of CSR, the term is still ambiguous and vague to some; it is an essentially contested concept (McWilliams et al., 2006,). However, it has been suggested that there is a large consensus on the basics of the concept, which stem from the application of the concepts of good corporate governance, as noted by the World Economic Forum, and the Global Business Leaders Forum in 2002 (Alhusseini, 2011). It could be argued that the development in the definitions of CSR has focused on two types of corporate responsibilities: economic and social. The first type is well known, which is one of the main purposes of the emergence of firms, while the other type is the field of study and research associated with the effect of companies' activities on social matters (including the environment, employees, society and customers).

According to Perrini (2005), the concept of CSR has changed over the past five decades, and where most of its focus was typically on the relationship between organisations and their social and environmental context, its focus now has shifted to determine the management tools and rules of conduct. This evaluation of the CSR concept accompanied by the growth of nonfinancial reporting is based on the assumption that the growth of this type of reporting can be derived from the concept of CSR, meaning that organisations are responsible and held accountable for their activities, which is called "social responsibility" (Perrini, 2005, p. 611). In fact, organisations have been asked by the main players in the customer and financial markets to present their ability to improve their businesses socially, and continually progress environmentally (Perrini, 2005). Accordingly, organisations must provide concrete evidence of their commitment to long-term improvement, and identify, monitor and disclose their operations' impact on the environment and society, as well as the economy (Preston, 1981) in order to build a good reputation in the market and gain stakeholders' confidence (Brammer and Pavelin, 2004). According to Deegan et al. (2002), society's expectations are not fixed and change over time, therefore, organisations must respond to the requirements of the environment in which they operate based on the "social contract" between them, where a tacit agreement exists between the organisation and society (Shocker and Sethi, 1974), and the failure of organisations to act in accordance with the social contract will prove detrimental to the continuing operations of the entity (Deegan et al., 2002).

Although CSD is still a voluntary activity, Gray et al. (1996) argued that organisations must disclose their social and environmental information to accomplish their accountability obligations. Organisations use CSD as a key tool for communicating with stakeholders regarding their social responsibility activities (Gray et al., 1996).

There are many forms of CSD, however the most typical form is to present the CSD information in the organisation's annual report, which includes both mandatory and voluntary information, or it could be in the form of a standalone report which is usually voluntary (Bebbington et al., 2008). Annual reports that contain CSD information have frequently been used by studies conducted in the CSD field due to their ease of access, and because this is the most preferred place for disclosure (Gray et al., 1996); however, it is important to include both quantified and descriptive terms (Tilt, 1994). There have been a large volume of CSD practices adopted in recent years where major companies have been claiming that they are socially and environmentally responsible and providing substantial social, environmental, and sustainability reports (Cooper and Owen, 2007). Nevertheless, their study included that both voluntary and mandatory forms of disclosure "offer little in the way of opportunity for facilitating action on the part of organisational stakeholders, and cannot therefore be viewed as exercises in accountability" (Cooper and Owen, 2007, p. 649).

There are a number of suggested reasons for the increase of CSD in organisations' annual reports articulated in the results of previous studies that have been carried out in developed countries. These include the activities of pressure groups, societal awareness and politics, attributed to increases in legislation, media interest, award schemes, specific events, risk, ethical investors, and economic activities (Haniffa and Cooke, 2005).

### **2.2.2 Definition of CSD**

The previous section has led to consideration of the definition of CSD. One of the early definitions of the term corporate social disclosure (CSD)<sup>7</sup> was given in 1975 by Elias and

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<sup>7</sup> It is worth mentioning that in the early emergence of this field many researchers used CSR to refer to the term corporate social reporting such as Elias and Epstein (1975). More recently the initials CSR typically refer to corporate social responsibility, hence the initials CSD are commonly used to refer to corporate social disclosure.

Epstein, who defined CSD as the disclosure of some of the work of an institution with respect to social activities and in terms of its performance or impact on society. This definition invites transparency among companies and the society in which they operate; it is the community's right to recognise the social services provided by a company, and the society's right to identify the positive or negative effect that occurs because of the company's operations (Alhusseini, 2011). A lot of efforts have been made since the 1970s to provide a precise definition of this issue, taking into account the different possible views (Mashat, 2005).

As discussed in the previous section, it has been argued that it is difficult to define accurately and specifically what exactly is meant by CSR (Capron and Gray, 2000), and that as many definitions have been proposed over the years no one knows precisely what CSR is; while Elias and Epstein (1975) commented that there is no one definition that is acceptable for social reporting, therefore, this issue remains a major sticking point between academics, policy makers and organisations (Capron and Gray, 2000).

CSD is defined by Guthrie and Mathews (1985) as providing within companies' annual reports or in standalone reports both financial and non-financial information relating to companies' activities within the physical and social environment they operate in. Based on this, the main idea behind CSD is that businesses have wider responsibilities than the financial responsibility of maximising their shareholders' wealth (Gray et al., 1996). According to Gray et al. (1995a), if CSD is thought of in extremely broad terms, it could potentially embrace:

"...both self-reporting by organisations and reporting about organisations by third parties; information in the annual report and in any other form of communication; both public and private information; information in any medium (financial, nonfinancial, quantitative, non-quantitative). It is not restricted necessarily by reference to selected information recipients; and



the information deemed to be CSR may, ultimately, embrace any subject" (p. 47).

CSD has been described as the disclosure of information regarding corporations' social impacts (Buhr, 1998; Neu et al., 1998). Gray et al. (1995a) noted that there is disagreement in the literature regarding CSD's definition, and they disagreed with Neimark's (1992) definition of CSD as:

"...forming part of the symbolic universe of language, signs, meanings, norms, beliefs, perceptions and values, through which individuals and institutions define themselves and are defined by others...Companies use their accounting [CSR?] to construct themselves and their relationships with others as they strive to create and maintain the conditions for their continued profitability and growth" (Neimark, 1992, p. 100).

In contrast, Gray et al. (1995a) agreed with Lehman's (1992) argument who defined CSD as:

"Accounting [CSR?] serve[s] to rationalise and justify the corporate entity ... by not merely describing effective management, but legitimizing (sic.) corporate power and maintaining confidence" (Lehman, 1992, p. 19, as cited in Gray et al, 1995a).

In Gray et al. (1996) CSD was defined as:

"...the process of communicating the social and environmental effects of organisations' economic actions to particular interest groups within society and to society at large. As such, it involves extending the accountability of organisations (particularly companies), beyond the traditional role of providing a financial account to the owners of capital, in particular, shareholders. Such an extension is predicated upon the assumption that companies do have wider responsibilities than simply to make money for their shareholders" (p. 3).

Certainly there is no single and specific definition of what is meant by CSD. Some have argued that providing a precise definition should be avoided (Burke, 1984), and that this could be advantageous as giving a specific definition of CSD might limit its ability to capture a dynamic phenomenon and would most likely meet with objections, since interested parties could perceive it differently (Elias and Epstein, 1975). Acne (1998) argued that, rather than

specifying a close-ended and inflexible definition of CSD which is limited in its dynamic nature, CSD's definition should be open-ended, flexible and able to be changed over time, which means that it should be able to be changed based on the purpose of the study and the time.

Generally, it could be said that there is no single and widely agreed definition of what CSD means, and that this could be due to differences in the scope and nature of CSR as it changes over time and between countries; as what is considered important in one country may not be vital to the other country, and as what is important at a particular point of time may not be important at another point in time (Gray et al., 1995a).

### **2.2.3 CSD Information**

Hackston and Milne (1996) defined CSD as an approach that highlights how an organisation is dealing with its financial and social environment by displaying the results of its financial and non-financial activities through its annual reports or social reports. Haron et al. (2006) mentioned that both positive and negative information about a company's operation can be provided through CSD. In general, CSD is about the organisation and the relationship with its stakeholders, such as shareholders, investors, the community, governments, suppliers, creditors and employees. CSD may typically include information such as that found in an early survey in 1978 conducted by Ernst and Ernst; that survey included environmental and energy information, human resources information, community involvement, products, fair business practices, and other social responsibility information. Many studies since have adopted and adapted the Ernst and Ernst CSD categories such as Gray et al. (1987), Epstein and Freedman (1994), Gray et al. (1995b), Hackston and Milne (1996), Newson and Deegan

(2002), Gao et al. (2005), Haniffa and Cooke (2005), Mashat (2005), Perrini (2005), Naser et al. (2006), and Bayoud et al. (2012b).

### **Environmental disclosure**

Environmental disclosure may provide information related to the impact of organisations' activities on the physical environment, such as the disclosure of the environmental impacts of products and processes, and environmental policies which are considered as the most popular sort of environmental disclosure internationally (O'Dwyer and Gray, 1998). Also, it provides information related to environmental related expenditures on, for example, pollution control (air, water, land, noise and visual); waste recycling; prevention or repair of environmental damage; the environmental benefits of products; conservation of natural resources; processes and audits; and research and development. In addition, sometimes it could include energy information or this may be provided under a separate category of energy. Such information might include conservation and energy saving, energy efficiency, development and exploration of new sources and use of new sources. It is becoming increasingly common for disclosures to include information on greenhouse gas emissions<sup>8</sup>.

### **Human resources disclosure**

One of the most important aspects of CSD concerns human resources. This category of disclosure includes information that concerns the impact of organisations' activities on their workforce, such as: employment policies in the company; the number of employees and their remuneration; the employment of women (sexual equality); trade unions; staff development

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<sup>8</sup> In the UK such disclosures became mandatory for large listed companies in April 2013. Based on that, around 1,800 listed companies on the London Stock Exchange have to provide reports which include full details on their greenhouse gas emissions. However, the enactment of this law was accompanied by concerns from some business groups of increasing the administrative burdens on companies, especially since some companies are already publishing such reports under the Climate Change Act and the European emissions trading scheme (Pickard, 2012).

and training programmes information; equal opportunities; pay and benefits; employee share ownership; opportunities for disabled employees; health and safety of staff; employee consultation; loans to employees; and sport and recreation.

### **Community involvement disclosure**

This type of disclosure typically concerns the impact of the organisation on its local or the wider community. It includes information regarding the data associated with the welfare of society and community involvement. This may include community activities, events, advertising and sponsorship of programmes that benefit society, education and the arts, charitable donations of products or cash, or employee services to support established community activities, as well as political donations and service, health and related activities, and other community activity disclosures. In the current study, Zakat<sup>9</sup> was included under this category as this payment goes to help needy people, projects, and special organisations through the intermediary of the government in Saudi Arabia.

### **Product and customer disclosure**

This type of CSD is related to the organisation's products including aspects such as their life durability, utility, safety and serviceability, and potential to reduce pollution through the product's use. In addition, it includes information related to customers such as customer relations, customer complaints, provision for disabled and aged customers, and provision for difficult-to-reach customers. CSR in relation to products includes a number of considerations that are important from the standpoint of marketing; a company should maintain the honesty of a product's advertising with clear labelling and packaging.

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<sup>9</sup> Zakat is one of the five fundamental pillars of the Islamic faith whereby Muslims are required to pay 2.5 percent of their wealth as charity every year.

#### **2.2.4 Historical Development of CSD**

Similar changes in social beliefs that brought about a development in the area of CSR have instigated a growth in the area of the CSD. During the 1970s, there had been an increased concern about the problems faced due to lack of CSR thereby, leading to the first useful experimentation regarding social accounting and auditing (Gray, 2008). According to Owen (2004), CSD is concerned with the part played by businesses in a society where societal expectations and environmental awareness are increasing. Corporations with insightful executives (especially those who had their businesses in an ecologically or socially susceptible area) quickly understood the importance of the topic and the benefits that would be obtained from generating at least basic details that could be shared with the public so as to provide a better picture of the situation (Owen, 2004).

A significant role in the expansion of CSR was played by international pressure; for example, the International Standards of Accounting and Reporting (1977) contained UN proposals that emphasised the necessity for corporations to widen the disclosure of their information and not just provide basic financial reports (Zain, 1999), which led to the printing of separate reports (Vourvachis, 2009). Moreover, social accounting was made a legal obligation in France (the Bilan Social), and there was progress on business disclosure in the UK whereby social disclosures were added to company reporting legal requirements during the late 1970s (Gray, 2008).

Gray (2008) stated that:

"Although pockets within the accounting profession were enthusiastic supporters of social accounting, it never made it into the orthodoxy of either the profession or of business practice. There are some obvious, though largely un-stated, reasons for the non-adoption of social accounting (for example, it threatened capital with costs and with accountability)" (p. 4).

A stated rationale was that the concept was not a part of the accounting profession and it was not even logical (both theoretically and practically<sup>10</sup>). These two claims were considered true at that point in time (Gray, 2008). In the 1970s, the prominent themes of CSD in the US were energy and environment, especially due to the energy crisis that was brought about by the Middle Eastern conflict and the increased Western reliance on oil resources (Zain, 1999). In Western Europe, the social information disclosed was mainly related to employee matters while in the UK the focus was mainly on community problems which was later shifted to employee disclosure in the 1970s and 1980s (Zain, 1999).

Social accounting and auditing were the province of the dispossessed and those dissatisfied about social and environmental concerns during the late 1980s (Gray, 2008). At the same time, ethical issues (such as community affairs, equal opportunity and socially beneficial products) featured on the agenda of Western Europe as a result of the growth of ethical investment trusts along with the increasing role of NGOs (Non-Governmental Organisations) (Gray et al., 1996).

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<sup>10</sup> Ullmann (1985) pointed out that there is little coherence in CSD, although for many reasons it has been the subject of substantial academic accounting research for over two decades. One of these reasons is that in 1983, Preston observed that there is no uniting paradigm for CSD, which is hardly considered a contentious subject (as cited in Gray et al., 1988). There are big problems in defining the parameters of the subject due to the lack of a conceptual framework for traditional accounting, and the absence of a specific and unique paradigmatic framework that is able to research and analyse current practices; furthermore, it creates controversy on the basis of analysing, assessing, and recommending policy developments (Davis et al., 1982). According to Tinker (1984), the reason behind the emergence of such a situation is a failure to examine the social foundations and assumptions that invest the subject, which is a part of the core roots of traditional accounting. Another reason is that the entry and exit of researchers in this field of study CSR has led to the absence of any theoretical perspective to drive research and thus reduced interest in CSD (Ullmann, 1985). In addition, the lack of systematic reporting by organisations makes conducting research more difficult, as do raised doubts about the legitimacy of doing research in this field of accounting (Gray et al., 1988). As a result, the subject of CSD has been seen as a political issue more than would be traditional in accounting research because of its very uncertainty and breadth of possibilities (Tinker et al., 1982). Gray et al. (1987) cite another reason behind the lack of unifying paradigm of CSD, which is that when the traditional intellectual baggage of accounting tried to express the issues of CSD, they faced its flaccid paraphernalia.

In 1990, there was a remarkable rise in environmental reporting in the UK as compared to the 1970s-1980s (Gray, 2008). In the US the disaster of the Exxon Valdez in 1989 provoked the Centre for Environmentally Responsible Economies (CERES) to generate comprehensive guidelines. The Securities and Exchange Commission (SEC) also ordered US companies to disclose certain environmental information (companies have to disclose any material financial effect of pollution abatement activities) (Zain, 1999). Social accounting came into view by the mid-1990s. It first emerged in the non-profit sector and later in the corporate sector (Gray, 2008). The 1980s and early 1990s heralded the coming of age of social and environmental accounting and auditing as an area of scholarly enquiry (Owen, 2004), due to the appearance of the journals *Advances in Public Interest Accounting*, *Critical Perspectives on Accounting*, and *Accounting, Auditing and Accountability Journal*, which joined the longer established (1976) *Accounting, Organisations and Society* as major outlets for publication in the field. Gray (2008) stated that:

"By 1990, however, everybody was suddenly "green" and the environmental agenda has steadily developed and, much to my astonishment, has not been wheeled off into obscurity again. The environment even finds mention in accounting standards and some areas of accounting education. By the mid 1990s even social accounting was re-emerging- first in the non-profit sector and then, belatedly, in the corporate sector. By the early 21<sup>st</sup> Century, social and environmental accounting are almost main-stream. The history now, it seems, will be a record of the struggle for the type, ubiquity and quality of such accounting and reporting rather than for its existence" (pp.4-5).

### **2.2.5 Various Terms that could refer to CSD**

There are several terms that could refer to corporate social disclosure, such as social accounting, social responsibility accounting, social responsibility disclosure, environmental and social accounting, corporate social and environmental reporting, corporate social reporting, and sustainability reporting. The multiplicity of definitions of CSD might be a

cause of confusion (Ghartey, 1987), especially for those who are just approaching the field, and that is because they might also have a different meaning depending on the circumstances. The only way to specify what the terminologies refer to exactly is by looking carefully at their context.

#### **2.2.5.1 Social Accounting**

Studying the relationship between civil society, the economy and the state is considered one of the main ways to understand any society (Gray and Laughlin, 2012). One of the mechanisms that could be considered as suitable in negotiation, elaboration and development in relationships such as these is accountability (Ebrahim and Weisband, 2007). Accounting could be defined as "the recording and control systems by which the elements of civil society, the state and the market define, articulate and monitor the behaviours by which they will be judged and held accountable" (Gray and Laughlin, 2012, p. 240). Decades earlier it was pointed out that as the public's awareness of the organisation's role towards the society, in which they operate has increased during the last 30 years; several companies have faced criticisms for being responsible for the creation of social problems (Gray et al., 1987). These include waste, pollution, the rights and status of workers, resource depletion, product quality and safety, and the power of large corporations, all of which are issues which have become the focus of increasing attention and concern. As such, these concerns were behind the emergence of social accounting.

Social accounting is considered as a broad term and has been defined in different ways depending on the context; however, Gray (2000) has provided a definition of social accounting that could be considered as comprehensive:



"...the preparation and publication of an account about an organisation's social, environmental, employee, community, customer and other stakeholder interactions and activities and, where possible, the consequences of those interactions and activities. The social account may contain financial information but is more likely to be a combination of quantified non-financial information and descriptive, non-quantified information. The social account may serve a number of purposes but discharge of the organisation's accountability to its stakeholders must be the clearly dominant of those reasons and the basis upon which the social account is judged" (p. 250).

Social accounting<sup>11</sup> could be used to mean CSD as argued by Gray et al. (1997), and based on Gray's (2000) definition; as it has two functions namely, the preparation of accounts, and providing these accounts to different stakeholder groups which is the main purpose of CSD.

#### **2.2.5.2 Sustainability**

Gray and Bebbington (2000) argued that there is no doubt that Western capitalism in particular is the reason behind many types of global pollution, and, by causing higher levels of material consumption is an attempt at creating well-being for mankind, these actions are causing the rapid and serious decline of the planetary environment (Gray and Bebbington, 2000). This situation poses a serious threat to planetary 'sustainability', or 'sustainable development', which is considered a deeply challenging idea which is arguably still little

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<sup>11</sup> Gray (2000) distinguished between two purposes of social accounting, which are social accounting for accountability, sustainability and democratic purposes, and social accounting for management control purposes. The former type of reporting has been designed to facilitate and support society in achieving its objectives, which would include information such as stakeholders' rights to information; empowering stakeholders; describing the limits of organisational ability; owning up to eco-justice and ecological footprint failures/impossibilities; balancing power with responsibility; demonstrating that one is 'walking the talk'; openness; demonstrating the social and environmental cost of economic success; and transparency; etc. While the latter type of social accounting is designed to support and facilitate an organisation to achieve its own goals, which includes image management; assessing risk; public relations; managing stakeholders; seeking out opportunities and efficiencies; living by one's values; identification of social responsibility; avoiding surprises; maintaining legitimacy; inclusivity; etc. However, Gray (2000) argued that there will often be overlap between these two types of social accounting purposes, and that the main difference between them is that the organisation comes first in social accounting for management control as well as assuming that it is a fundamentally benign creation, while society is put first in social accounting for accountability which makes no such assumption about the organisation. Gray (2000) said that "if social accounting is not about holding organisations to account, then it is of interest to us only as a management tool - not as a mechanism of a democratic society" (p. 255).

understood. Sustainability has been defined as: "meeting the needs of the present without compromising the ability of future generations to meet their own needs" (United Nations World Commission on Environment and Development, 1987, p.8, as cited in Gray and Bebbington, 2000).

The concept of sustainability includes the question of humanity's survival, whether it will survive on the planet, and who of mankind will survive, as well as the form of economic and social organisations that will permit survival. Nowadays, sustainability is concerned with social justice and environmental actions alike (Gray, 2000). Based on the definition of sustainability cited by Gray and Bebbington (2000), it is clear that it is related to current and future generations alike and involves meeting people's social and environmental needs. The former kind of need may be called eco-justice, which concerns the idea of all people and generations having reasonable access to environmental resources; while the latter depends on eco-efficiency and eco-effectiveness. Eco-efficiency concerns the concept of a reduction of material and energy inputs per unit of output. Although eco-efficiency is a useful concept, it should be distinguishable from the concept of eco-effectiveness, which is concerned with keeping our overall ecological footprint within the resources of our single planet. The three elements of sustainability: eco-justice, eco-efficiency, and eco-effectiveness are necessary for both current and future generations to achieve sustainability (Gray and Bebbington, 2000).

What is mentioned above as sustainability involves social justice and environmental conservation, which are important aspects of corporate social responsibility. However, it has been argued that (based on the study of Van Marrewijk (2003) which concentrated on CSR and sustainability definitions), based on philosophical analyses, historical perspectives, practical considerations, and the impact of changing situations and contexts, that there is no

one definition of CSR and sustainability that can fit both phenomena. Van Marrewijk believed that creating such a definition should be abandoned. He stated that:

"I would recommend to keep a small but essential distinction: Associate CSR with the communion aspect of people and organisations and CS<sup>12</sup> with the agency principle. Therefore CSR relates to phenomena such as transparency, stakeholder dialogue and sustainability reporting, while CS focuses on value creation, environmental management, environmental friendly production systems, human capital management and so forth. In general, corporate sustainability and, CSR refer to company activities - voluntary by definition - demonstrating the inclusion of social and environmental concerns in business operations and in interactions with stakeholders. This is the broad - some would say "vague" - definition of corporate sustainability and CSR (p. 102).

Gray and Bebbington (2000) argued that the most important and vital aspect of social accounting is the area of sustainability. The emergence of 'sustainability reports' has received a great deal of attention in the literature as one process of managerial capture (Gray, 2000).

According to Gray (2000)

"...sustainability reports, with only a few and marginal exceptions, typically comprise a combination of an environmental report (emphasising eco-efficiency rather than ecological impact) coupled with some peripheral concerns over social interaction (as opposed to an analysis of the organisation's impact on social justice" (p.262).

Based on what has been mentioned above, overlap between CSR and sustainability could be a source of confusion, since sustainability disclosures might mean the same thing as CSD for some organisations and might not depend on the context. However, it is important to mention that a sustainability report does not necessarily mean the same as a CSD report.

## **2. 3 Motivations for CSD**

The awareness of stakeholders in the business community of the importance of reporting on environment, social responsibility and ethical behaviour by organisations has been increasing

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<sup>12</sup> CS refers to corporate sustainability.

over time (Zadek et al., 1997). As the broad duties of accountability are implied by an organisational stakeholder's non-financial expectations, the recognition by business organisations of the role of CSR increased, as a means through which such duties of accountability might be discharged (Gray et al., 1996).

A number of studies have been conducted to investigate the reasons behind companies' disclosure of their information, as it is voluntary and not mandatory (Deegan, 2002). Numerous motivations behind this kind of disclosure have been investigated by many researchers such as Gray et al. (1988); Gray et al. (1995a); Friedman and Miles (2001); Deegan (2002); O'Dwyer et al. (2005). These motivations for disclosing CSR information can be divided into managers' or users' perspectives.

### **2.3.1 Managers' Motivations for CSD**

Many researchers have studied managers' motivations behind CSD<sup>13</sup>. Freedman and Stagliano (1992) stated that:

"It is probable that there is no single motivation for making social disclosure...Whether there is an economic motivation for the disclosure...a reaction to user needs...or a political motivation...it is probably a consequence of each management's particular perception of the world it faces" (p. 113, as cited in Van der Laan, 2009).

As noted by Freedman and Stagliano (1992) and the aforementioned studies, it is clear that there are a number of managerial motivations behind CSD<sup>14</sup>. A further incentive for corporate responsibility generally, rather than for disclosure in particular was identified by Paine (2003):

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<sup>13</sup> See for example, Cooper and Sherer (1984); Guthrie and Parker (1989); Epstein and Freedman (1994); Gray et al. (1995a); Jaggi and Zhao (1996); Hooghiemstra (2000); O'Dwyer (2002); Al-Khater and Naser (2003); Rahaman et al. (2004); Haniffa and Cooke (2005); O'Dwyer et al. (2005); Belal and Owen (2007); Belal and Momin (2009); Othman et al. (2012).

<sup>14</sup> It is worth noting that according to Kamla et al. (2012), "social accounting, as in the case of corporate social responsibility...has largely been captured by economic business interests" (p. 1171).

"Today's leading companies are expected not only to create wealth and produce superior goods and services but also to conduct themselves as "moral actors"- as reasonable agents that carry out their business within a moral framework. As such, they are expected to adhere to basic ethical principles, exercise moral judgment in carrying out their affairs, accept responsibility for their deeds and misdeeds, be responsive to the needs and interests of others, and manage their own values and commitments. Contrary to theorists who for centuries have declared the corporation to be an entirely amoral creature and thus incapable of such behaviour, society today has endowed the corporation with a moral personality. Evidence of this development is all around us. Corporate reputation studies, best-company ranking, employee commitment surveys, polls of citizens worldwide, expanding investor concerns, the daily news- all these indicate that employees, customers, citizens, and even some investors are using both ethical and economic criteria to evaluate the companies they deal with" (Paine, 2003, p. x).

A number of managerial motivations are discussed briefly in this section.

#### **2.3.1.1 Corporate Image, Reputation, and Self-Interest**

A number of studies have emphasised that CSD can play an important role in many ways to serve a company's interests. For instance, CSD could develop corporate image by enhancing corporate transparency and creating a good environmental reputation for companies. This could build a positive impact on companies' share prices, increasing stock liquidity, lowering companies' cost of capital and providing an impetus for internal development. CSD could help in obtaining users' trust, gaining better customer loyalty, enhancing interest by institutional investors, helping with the recruitment and retention of talented employees, and improving productivity and product quality from more highly motivated employees. Improved reputation can also help in gaining government funds and support, and getting important support from the community in which they work (Cooper and Sherer, 1984; Mathews, 1984; Gray et al., 1988; Gray et al., 1995a; Hooghiemstra, 2000; Friedman and Miles, 2001; Gray and Bebbington, 2001; Toms, 2002; Cormier and Magnan, 2003; Idowu and Towler, 2004; Haniffa and Cooke, 2005; Amran and Devi, 2008; Salama, 2009).

Showing that an organisation is doing the right thing may thus bring some business advantages which might be the key motivation, rather than the acceptance of any social responsibilities by the business (Friedman, 1962, as cited in Deegan, 2002). In addition, CSD might help managers in achieving personal goals such as increasing their opportunities to get bonuses and compensation as well as improving their promotion aspects (Healy and Palepu, 2001).

#### **2.3.1.2 Managing Stakeholders**

A number of researchers maintain that one of the main motivations behind providing CSD by managers is using it as a method to manage different groups of stakeholders in order gain their approval and support (Gray et al., 1995a; Friedman and Miles, 2001; O'Dwyer et al., 2005). Also, companies might use the flexibility of voluntary CSD as a tool to inform different audiences and impact on different groups of annual report's users (Mathews, 1984). Belal and Owen (2007) examined managers' perspectives regarding the current and future state of CSD. Their findings are consistent with other studies which showed that the main managers' motivation behind adopting CSD processes is a strong desire on the part of management to manage powerful stakeholder groups. Haniffa and Cooke (2005) stated that CSD information is provided by some companies to their stakeholders to satisfy them. It could be said that CSD could be used by some managers to alter the perceptions of different users of annual reports or to shape their perspectives in a way which benefits the organisation.

#### **2.3.1.3 Legal Obligations**

Disclosure laws or legal obligations have been considered to be one of the major reasons behind the provision of CSD by companies (Epstein and Freedman, 1994). Deegan and

Rankin (1999) conducted a study to find out if there was an expectation gap between the report preparers and the requirements of this information from the point of view of the environmental performance users. The outcomes showed that a significant gap is present between the preparers and the users of annual reports but legal obligation was found to be the most important and significant factor in influencing CSD. DeTienne and Lewis (2005) suggested that developing social reporting standards would enhance CSD, however they also argued that it would need to be strictly implemented over time using a regulatory authority or body. Moreover, based on Rahaman (2000) and Belal and Roberts (2010), legal obligation has been supported as one of the managers' main motivations for providing CSD information. In addition, the study by Al-Khater and Naser (2003) showed respondents believed that "a law that encourages disclosure of corporate social responsibility information should be introduced" (p. 538). Also Naser and Baker (1999) found the main perceived reason behind the absence of CSD in Jordanian companies was the lack of mandatory requirements, which reinforces the argument that laws and legal obligations are important reasons behind companies' social and environmental disclosure.

#### **2.3.1.4 Funding Pressure**

Many studies have considered external funders as providing one of the main managers' motivations for CSD. For example, Rahaman (2000) sought to explore the perception of the senior management of 12 of the top Ghanaian companies regarding CSD. He found that few companies in Ghana make disclosures regarding environmental issues. The Volta River Authority was one public sector company that had disclosed such information, which noted the prime motivation as being pressure from international lending agencies that include the IMF and the World Bank. The study concluded that the perception of the management of

Ghanaian CSD was significantly based on pressures from international agencies like the World Bank (Rahaman, 2000). Another study by Rahaman et al. (2004) reiterated this finding in relation to the 'Volta River Authority'.

### **2.3.1.5 Gaining Legitimacy**

Gaining legitimacy is considered a fundamental managerial motivation for providing CSD (Deegan and Rankin, 1997). Zubek and Mashat (2015) found that Qatar listed companies tend to provide CSR information "to present a socially responsible image so that they can legitimise their behaviour to their stakeholder groups" (p. 110). CSD was also analysed from a legitimacy theory perspective by Hooghiemstra (2000). It was found that both public pressures and media attention were reasons behind providing CSD as a response to major incidents such as the Exxon Valdez oil spill<sup>15</sup> (see also Patten and Nance, 1998) and the chemical leak in Bhopal<sup>16</sup> (India). Hooghiemstra believed that increasing CSD is a strategy used by firms to alter the public's perceptions about an organisation's legitimacy. On the other hand, an attempt to explain managerial perceptions of CSD presence and absence was undertaken by O'Dwyer (2002). In his study of Irish managerial perceptions, he found that although CSD could be a part of a legitimacy process:

"...ultimately this is misguided as it is widely perceived as being incapable of supporting the achievement of a legitimacy state. Consequently, for many managers, the continued practice of CSD is deemed somewhat perplexing" (p. 406).

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<sup>15</sup> The incident and its aftermath were described by the company responsible as follows: "shortly after midnight on March 24, 1989, in a tragic accident deeply regretted by the company, the Exxon Valdez supertanker ran aground in Alaska's Prince William Sound. Despite the efforts undertaken to stabilize (sic.) the vessel and prevent further spillage of oil, more than 250,000 barrels of oil were lost in just a short period of time. Exxon and the U.S. Coast Guard began a massive clean-up effort that eventually involved more than 11,000 Alaskan residents and thousands of Exxon and contractor personnel. In 1992 the U.S. Coast Guard declared the clean-up complete" (ExxonMobil, 2013).

<sup>16</sup> "On the night of December 2, 1984 a pesticide plant in Bhopal, India leaked methyl isocyanate gas and other chemicals creating a dense toxic cloud over the region and killing more than 8,000 people in just the first few days" (Greenpeace, 2013).



However, as noted above, it has been found by Rahaman et al. (2004) that certain organisations (such as the Volta River Authority in Ghana 'VRA') may provide CSD as a response to funding pressure to provide institutional legitimisation. Accordingly, in certain circumstances the local population might suffer from undesirable outcomes because of this pressure, as institutionalised practices can be counterproductive in terms of social impact and work against the original developmental goals as is the case of the VRA project.

"The findings show that highly visible damage control projects, necessitated by the construction of the largest man-made lake in the world, are reported in detail. What is not reported, however, is the less visible social and economic impact on large parts of the rural Ghanaian communities arising from the pressure to perform as a commercial organisation and earn a return on assets. The same sources of pressure which encourage the reporting of physical environmental impacts, lead to prices beyond the reach of local people and work against the original developmental goal of the VRA project. Such effects are invisible masked by accounting systems designed to meet the requirements of international institutional legitimisation...the result of institutionalised reporting procedures is not legitimacy, but a crisis of legitimation" (Rahaman et al., 2004, pp. 35-36).

### **2.3.1.6 Pressure Groups**

There are a great number of factors that tend to influence CSD, including pressure groups<sup>17</sup> (Gray et al., 1995a; Haniffa and Cooke, 2005; Cho et al., 2006; Belal and Owen, 2007; Islam and Deegan, 2008; Van der Laan, 2009). Much of the available literature argues that one of the main factors that influence public disclosure of company procedures is community pressure groups (Tilt, 1994). According to Cormier and Magnan (1999), the public pressure

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<sup>17</sup> Aaronson and Reeves (2002) debated that as a result of the failure of voluntary CSD, there is public pressure on governments and other institutions to develop and set policies to disclose such information and to provide different accreditation mechanisms, standards and guidelines that help to control CSD practices. However, these efforts do not necessarily seek to make CSD mandatory, but aim to find a compromise to hold companies accountable for their activities (Aaronson and Reeves, 2002). Van der Laan (2009) pointed out the existence of other parties, which they called "solicited disclosure parties", working to put pressure on companies to reveal various forms of their interactions and their effects on society and the environment. Among these solicited disclosure parties requesting social information from companies are non-governmental organisations (NGOs), ethical or socially responsible fund managers, rating agencies, regulatory agencies and other interested parties.

that is put on a company's social and environmental reporting methods tends to influence political costs that a company could face during their environmental work. Some researchers argue that it is possible to bring down the expectation gap between the people who prepare environmental reports and those who use them, and also improve the environmental disclosure qualities by bringing in some new initiatives for industries (Deegan and Rankin, 1999).

An early study conducted by Tilt (1994) found that organisations that had good disclosure regimes were supported by pressure groups while those companies which did not make their social information public were lobbied against (Tilt, 1994). She also believed that a company's social responsibility should be broad in range, with organisations being expected to not only reveal their own actions, but also the activities of their subsidiaries.

Belal and Owen (2007) found that managers in Bangladesh tend to provide CSR information in order to manage powerful stakeholder groups. The process is pushed forward by external forces which in particular include parent companies' instructions and demands from international customers. In other words the CSD process in Bangladesh seeks to bring about an improvement in corporate image and to influence the thought of economically strong stakeholders. Another study in Bangladesh by Islam and Deegan (2008), found that the Bangladesh Garments Manufacturer and Exports Association (BGMEA) was put under a lot of pressure by a few of their stakeholders. Their international buyers pressurised the organisation to disclose their social actions and reveal their social policies. Bangladesh's clothing industry responded accordingly to this pressure because they were seen to come from managers working in the same industry. Motivated by their instinct to survive, they responded with some social disclosure, which led to the conclusion that no pressure would

have resulted in little or no disclosures at all; the interviewees in the study did not believe disclosures were made because companies wanted to take responsibility for their own actions. It was further argued that such pressures push forward disclosure and social policy within the garments industry (Islam and Deegan, 2008).

Generally, CSD is voluntary which leaves room for new research to be done on the kind of motivational factors that influence disclosure decisions. Prior research has focused on whether the aim of CSD is to discharge accountability or for gaining legitimacy, and "ignores the emergence of an alternate style of corporate social disclosure, the 'solicited' disclosure" (Van der Laan, 2009, p. 15). More and more researchers, socially or ethically inclined investment fund managers, regulatory agencies and non-government organisations (NGOs) put in requests for CSR information every day which makes an exploration of managerial motives in a Saudi Arabia context timely.

"This shift from voluntary information provision to demanded information can be viewed as a natural consequence of the increasing pressures on corporations to be 'responsible', particularly in light of intensified world wide attention on unethical corporate behaviour and corporate collapse. These contemporary variants of social disclosure are worthy of scrutiny when considering these 'solicited' disclosures potentially reduce a corporation's power in defining the scope and nature of disclosures" (Van der Laan, 2009, p. 15).

### **2.3.2 Users' Perspectives of CSD**

In 1997, Zadek et al. stated that there has been a clear rise in awareness over how significant it is that key stakeholders are interested in ethically, socially and environmentally responsible behaviour from organisations. There are a number of studies of users' perspectives of CSD which are outlined next. These centre around the public right to such information and its use in investment decision making.

### **2.3.2.1 Public Rights to Information**

A number of studies found that the public's right to information is one reason for providing CSD by companies (Al-Khater and Naser, 2003; Elsakit and Worthington, 2012). Annual reports are used by different groups in society to gain information about companies' activities and their social responsibility. According to O'Dwyer et al. (2005) "companies were viewed as having obligations to respect the rights of individuals to information on social and environmental impacts" (p. 22).

Furthermore, the results of the Epstein and Freedman (1994) study in the US which investigated the benefit of annual reports to corporate shareholders found that non-institutional shareholders wished for their companies to mention something about their social activities, along with asking for knowledge about the quality and safety of products and the conditions in which they were made. This means that shareholders are requesting certain information from companies to be included in their annual report. An argument has been made in favour of offering social disclosures, which is also the principle of the argument by Gray et al. (1991) regarding accountability, since accordingly many stakeholders who are not investors and are influenced by the corporation, have a right to information (Epstein and Freedman, 1994).

A study in Libya by Gharvey (1987, as cited in Mashat, 2005) also found that CSD serves to ensure that the public receives its due rights by delivering desired information and they have the free will to complain if their satisfaction is not met. Mashat (2005) argued that among the many beneficial aspects of CSD is that a wider range of stakeholders in Libyan society could have access to information, that there would be more than just economic activities of the business being reported, and that there are prospects of CSD offering novel ways of

providing accounting disclosure in Libya. He continued that this might in turn bring about improvements in Libyan culture and beliefs particularly a greater awareness of the importance of democracy, a right to information, equal opportunity and social justice, citizens' freedom and rights, and moral values (Mashat, 2005).

Moreover, views of various non-managerial stakeholders on CSD in Bangladesh showed that compulsory externally verified CSD, that centred on such principles as people's right to information, full disclosure and accountability (which belong to a wider group of principles of transparency and stakeholder responsibility), got much support (Belal and Roberts, 2010). For example, customers considered reliable and complete information about the conditions in which products are provided as extremely vital when making purchasing decisions and this pattern was also observed in the responses of interviewees from trade unions, civil society and customer groups in Bangladesh (Belal and Roberts, 2010).

### **2.3.2.2 Investment Decisions**

Social accounting is considered essential for many business information users; these include public societies, workers, clients, government and its component organisations, pressure groups and society in general (Al-Khater and Naser, 2003). Users can make better decisions when information about CSR is accessible. Othman et al. (2012) examined factors affecting the level of CSD provided by Malaysian companies. They found that there is a notable and optimistic association between CSD and investment. This association indicates that the investors feel confident in investing in companies that have good CSD, as their investment is secure. If a company provides more CSD than is mandatory, this could help in increasing the total investment. This study shows that investors choose those companies which practice more CSD to secure their investment (Othman et al., 2012). The results of the Othman et al.

study provide support to the findings of Cox et al. (2004) that investors prefer companies that have good CSR and disclosure as they feel secure and confident. According to Al-Khater and Naser (2003), Muslims, for example, invest their funds in organisations that pay Zakat and give money to benevolent organisations in Islamic countries. It could be seen that, providing this kind of CSR information (including for example, funding a religious activity via Zakat) through companies' annual reports or via other means will help investors in these countries to make their decisions (Al-Khater and Naser, 2003).

Epstein and Freedman (1994) examined the importance of CSD for individual investors. They found that knowledge about the environmental state of the organisation and the quality and safety of a product are viewed as extremely important. Moreover, they found that data about the company associated with its societal contribution, employee relations and moral values is also needed by the shareholders. They also reported that shareholders needed CSD because their investment success relied on it and their investment decisions were thus affected by it. CSD provides information that can be helpful in increasing the probability of their investment. Thus, a positive response was shown by the respondents about the relevance of such information to the stock market (Epstein and Freedman, 1994). Also Rockness and Williams (1988) in an early study found, while they were surveying the executives of social responsibility mutual funds, that different kinds of CSR information were required in order to determine in which organisations investments should be made.

## **2.4 CSD and Company Characteristics**

Investigating CSD and the characteristics of disclosing companies has received a great deal of attention in the social and environmental accounting and reporting literature over the years. In particular, many studies have examined the relationship between CSD and corporate

size, profitability, and industry type (Gray et al., 2001) (see also, for example, Cowen et al., 1987; Patten, 1991; Gray et al., 1995a; Deegan and Gordon, 1996; Hackston and Milne, 1996; Adams et al., 1998; Gray and Bebbington, 2001; Gao et al., 2005; Haniffa and Cooke, 2005; Bayoud et al., 2012a; Razak, 2015). Adams et al. (1998) mentioned that care should be taken when interpreting the results of such studies. They argued that although these studies were often based on large companies, the samples differed in terms of both size and the type of industry covered. In addition, they argued that it is difficult to generalise the results between countries due to differences in country characteristics, time periods covered and explanatory variables employed (Adams et al., 1998). What this means is that, although business characteristics are an important determinant of a tendency to disclose, investigators should interpret such results with caution (Gray et al., 2001). The following subsections will focus on three of the most commonly investigated variables: (i) size; (ii) profitability; and (iii) industry.

#### **2.4.1 Size**

Reasonably consistent results have been produced by exploring the relationship between corporate size and CSD as stated by Gray et al. (2001). Furthermore, most empirical studies suggest that a company's size has an impact on the volume of CSD, for example, Gray et al. (1995a), Al-Basteki (1997), Suwaidan et al. (2004), Haniffa and Cooke (2005), Saaydah (2005), Barako et al. (2006), Hanafi (2006), Naser et al. (2006), Hossain and Reaz (2007), Hossain and Hammami (2009), Menassa (2010), Gamerschlag et al. (2011), and Bayoud et al. (2012b). These academics established a noteworthy connection between company size and volume of CSD. The conclusions explained the importance of this association as told by Bayoud et al. (2012b). Moreover, larger companies tend to disclose more CSR information

than small sized and medium sized companies (Bayoud et al., 2012b). Cowen et al. (1987) found size to be a significant and instructive variable in their studies of social disclosure and they suggested the reason for the relationship may be that larger companies, which tend to receive more attention from the general public, are under a greater public burden to exhibit community accountability; the annual report can act as an efficient means of communication for this information. Also, Daub (2007) identified that, to date, experience shows that a much larger share of the responsibility for global problems such as the pollution of the atmosphere or social inequality "is placed on the shoulders of large companies compared to small-to-medium-sized enterprises and, on balance, they are put under more pressure by their stakeholders" (p. 6) as noted above.

Ho and Taylor (2007) considered possible reasons for a link between disclosure and corporate size as follows:

"First, disclosure costs may generally be lower for larger firms...the cost of preparing corporate disclosures is decreasing with firm size because of economies of scale. It is also argued that the cost of disseminating disclosures may be lower for larger firms because the news media are more likely to report stories about larger firms and analysts are more likely to attend their meetings...Larger firms are likely to have higher agency costs because of higher information asymmetry between managers and shareholders...Political costs are also used to explain a positive association between firm size and disclosure. Larger firms are generally more exposed to political attacks, demands for the exercise of social responsibility, greater regulation, threat of nationalization, or the breakup of the entity or industry ...To counter government intervention, larger firms have stronger incentives to enhance their corporate reporting and/or minimize their reported earnings ...smaller firms are more likely than larger firms to feel that greater disclosure would be detrimental to their competitive position" (pp. 129-130).

However, not all CSD studies have supported a size to disclosure connection. For instance, a study by Roberts (1992) found no relationship in a US sample. Likewise, in New Zealand, studies by both Davey (1985) and Ng (1985) found no positive relation between company



size and CSD practices. Also Rahman and Widyasari (2008) found that size was not an influence on CSD in a sample of listed companies on the Jakarta Stock Exchange. Guthrie and Mathews (1985) suggested Davey's and Ng's results might arise because of their use of poor and small samples and their research approach.

#### **2.4.2 Profitability**

In 1991, Patten, stated that the relationship between profitability and CSD is unsettled. However, a possible explanation for a positive association between CSD and profitability exists, which is that the more profitable the firm the more management has the freedom and flexibility to undertake and reveal more extensive social responsibility programs to shareholders according to Haniffa and Cooke (2005).

Gray et al. (2001) stated that the relationship between CSD and "profit measures, if it exists, proves to be elusive" (p.330). In addition, Abbott and Monsen (1979), Cowen et al. (1987), Patten (1991), Hackston and Milne (1996), Al-Basteki (1997), Barako et al. (2006), Rahman and Widyasari (2008), and Hossain and Hammami (2009) found no relationship between a company's profitability and its level of CSD. On the other hand, Bowman (1978), Anderson and Frankle (1980), Suwaidan et al. (2004), Saaydah (2005), Van Beurden and Gössling (2008), Liu and Anbumozhi (2009), Menassa (2010), Gamerschlag et al. (2011), and Hussainey et al. (2011) found a positive relationship between social disclosure and financial performance. Roberts (1992) argued that a lagged connection exists between these variables.

#### **2.4.3 Industry**

Hackston and Milne (1996) considered a company's industry as a feature that possibly affects the level of CSD, and a number of studies have scrutinised the effect of industry sector on

CSD (Gray et al., 2001). It has been found that industry classification has a significant effect on the level of CSD provided by companies (Patten, 1991; Al-Basteki, 1997; Mashat, 2005; Hanafi, 2006; Rizk et al., 2008; Gamerschlag et al., 2011; Bayoud et al., 2012b), with higher levels of CSD being found in more ecologically sensitive industries, like some of the manufacturing sectors, compared to some less sensitive industries (Dierkes and Preston, 1977; Bayoud et al., 2012b). Similarly, Hackston and Milne (1996) reported that disclosures are larger in what they classify as high profile industries, while Ness and Mirza (1991) found that this relationship holds exactly for the oil industry. Cowen et al. (1987) and Adams et al. (1998) found that specific areas of disclosure are related to industry sector. For example, Cowen et al. (1987) stated that industry helps to explain energy and community disclosures whereas Adams et al. (1998) found that industry explains some environmental and some employee disclosures. On the other hand, Saaydah (2005) found the type of industry to not be significant with regard to CSD.

Patten (1991) however, argued that industry, like company size, impacts political visibility and this feature can drive disclosure following pressure and criticism from social activists. Similarly, Ho and Taylor (2007) claimed that companies in the same industry tend to adopt similar disclosure practices and policies to be in line with the norms of their industry to avoid or minimise political vulnerability. They suggested that if any company does not tend to follow the industry-wide reporting practices, then it may be understood by the market as trying to hide some type of bad news (Ho and Taylor, 2007).

Haniffa and Cooke (2005) stated that "the influence of industry type on CSD practice depends on how critical the effects of their economic activities impacts on society" (p.403). For further illustration, it has been suggested that labour demanding industries such as

manufacturing and processing firms will choose to disclose more information on employees compared to companies in the biochemical and extractive industries that are likely to disclose greater environmental information to reflect sensitivity to their particular problems (Cowen et al., 1987). Likewise, consumer-oriented businesses can be predicted to show more social disclosure to improve their business appearance among market customers, which in turn can influence the amount of sales generated (Cowen et al., 1987). Gray et al. (1995a) noted "there is some evidence of industry effects but the studies are not clear or consistent enough to assess exactly what, if any, these effects might be" (pp. 49-50).

From the preceding discussion it could be concluded that there is an identified robust relationship between the amount of CSD and both size and industry type, while profitability does not show such a relationship in the same period although disclosures may be related to lagged profits.

## **2.5 Summary**

The purpose of this chapter, as mentioned earlier, is to highlight some important variables related to CSD which have increasingly attracted researchers' attention over recent decades. It can be argued that, from the previous discussion, CSD has derived from CSR, which means that organisations should be responsible for providing an account and disclosing information regarding the impact of their activities on society. This kind of disclosure still remains mainly voluntary in most countries. Different approaches are used to disclose CSD information such as companies' annual reports and separate corporate responsibility reports which have become increasingly used.

In addition, this chapter has looked for the definition of CSD. According to Gray (1987), CSD could be defined as a process by which companies provide information on their social performance, which is also known as social reporting. However, it has been highlighted that there is no single and widely agreed definition of CSD. Also the chapter shed light on motivations behind companies disclosing social and environmental information especially when such disclosure is voluntary, as well as providing users' perspectives of CSD. Further, information was provided regarding what data and information have been disclosed in such reports.

The historical development of CSD has been detailed in this chapter. Additionally, there are several terms that could refer to CSD which have been discussed such as social accounting and sustainability reporting. Finally, the relationship between CSD and companies' characteristics such as size, profitability, and type of industry have been considered in the discussion and it shows that there is, in general, a strong relationship between both a company's size and type of industry and the level of CSD, while there is not such a strong relationship between CSD and profitability.

This chapter outlined the relevant literature related to CSD. The next chapter focusses on studies of CSD which were conducted in Arab Middle Eastern and North African countries (Arab MENA countries) with a particular focus on Saudi Arabia.

## **Chapter 3 : Literature Review (Part 2)**

### **3.1 Introduction**

A broad introduction to the literature on CSD was presented in the previous chapter. This chapter will focus on the literature related to CSD studies conducted in Arab Middle Eastern and North African countries (Arab MENA countries).

Many aspects of CSD have been studied by researchers around the world. For example, significant academic literature focuses on the reasons companies provide CSD information; in other words, what are the managerial motivations for CSD, and how can providing this information help the company? Another part of the literature focuses on the benefits of CSD information for users of annual reports and whether this kind of information is important for them or not. Also the effects of company characteristics on the level of CSD have been studied.

CSR and disclosure is considered a Western phenomenon and it is increasing worldwide; its manifestation is not as great in developing countries, compared to the Western developed countries, and, in particular, European countries (Momin, 2006). Many studies have conducted regarding CSD in various countries, examples of which, by geographic area, include: (i) Australia and New Zealand (e.g. Guthrie and Parker, 1989; Tilt, 1994; Deegan and Gordon, 1996; Deegan and Rankin, 1996; Hackston and Milne, 1996; Deegan and Rankin, 1999; Deegan et al., 2002; Golob and Bartlett, 2007; Chen and Bouvain, 2009); (ii) the United Kingdom (e.g. Gray et al., 1995a; Gray et al., 1995b; Gray et al., 2001; Owen et al., 2001; Adams, 2002; Hammond and Miles, 2004; O'Dwyer and Owen, 2005; Jones et al., 2006; Chen and Bouvain, 2009); (iii) Western Europe (e.g. Adams et al., 1998; O'Dwyer, 2002; Douglas et al., 2004; O'Dwyer et al., 2005; Chen and Bouvain, 2009); (iv) the United States (e.g. Abbott and Monsen, 1979; Epstein and Freedman, 1994; Chen and Bouvain, 2009;

Holder-Webb et al., 2009); and (v) Japan (e.g. Yamagami and Kokubu, 1991; Tanimoto and Suzuki, 2005). However, CSD is still considered a new field of study in the Arab MENA area which is reflected in the limited number of such studies undertaken in these countries.

There are a number of limitations that have faced CSR and disclosure in developing countries, such as the fact that the determinants, institutions, appeals systems and rules that support CSR and disclosure in developed countries are still relatively weak in developing countries (Kemp, 2001). A number of arguments have been suggested by Chambers et al. (2003) that can explain the low level of CSD practices in developing countries when compared with developed countries, which are: CSR is a function of economic wealth; CSR is stimulated by civil society in developed countries through generating greater societal demands and expectations of business responsibility; and Western governance encourages greater CSR in developed countries as it is more developed than in developing countries.

The objective of this chapter is to review studies of CSD that have been undertaken in Arab MENA countries, with a particular focus on Saudi Arabia, which is the empirical centre of the current study. This chapter is important to identify any literature gap which may lead to developing research questions. In addition, limitations and determinants of previous studies must be taken into account when conducting this review. Previous studies on CSD in Arab MENA countries are presented in Section 3.2, while a summary and conclusion of the chapter are presented in Section 3.3.

### **3.2 Studies of CSD in Arab MENA countries**

In Arab MENA countries, including Saudi Arabia, relatively little is known about CSD practices (Belal, 2008) compared to developed countries. However, some studies have been

conducted in the area of CSD; and some research papers and literature about CSD have been published to start to fill this gap. These studies are presented in Table 3.1 in reverse chronological order, while Table 3.2 summarises these studies by country.

**Table 3.1: Studies on CSD in Arab MENA Countries**

N	Author/s	Year	Country/ies	Method	Sample	Theory
1	Alghodban, and Ramli	2015	Libya	Content analysis-Disclosure index	61 companies for 2009-2010-2012	--
2	Razak	2015	Saudi Arabia	Content analysis-Regression analysis	166 listed companies in 2013	Legitimacy
3	Zubek and Mashat	2015	Qatar	Content analysis	42 listed companies' web pages in the Qatar Exchange	Legitimacy
4	Bayoud et al.	2012a	Libya	Content analysis-Questionnaire - Interviews	110 annual reports of 40 companies- 149 managers and employees- 31 managers	Stakeholder
5	Bayoud et al.	2012b	Libya	Regression analysis-Interviews	40 companies annual reports for 3 years- 31 managers	Stakeholder
6	Farook et al.	2011	14 Islamic countries	Regression analysis	47 Islamic banks	Political economy, Legitimacy, Stakeholder
7	Hussainey et al.	2011	Egypt	Content analysis	111 Egyptian listed companies from 2005 to 2010	--
8	Kamla and Rammal	2013	Around the World	Content analysis	10 Islamic banks annual reports	Critical
9	Khasharmeh and Suwaidan	2010	GCC countries	Disclosure index	60 manufacturing companies listed in the financial markets of the six countries	--
10	Menassa	2010	Lebanon	Content analysis	24 Lebanese commercial banks	Legitimacy
11	Aribi	2009	GCC countries	Content analysis-Interview	Annual reports of 21 Islamic financial institution and 21 conventional financial institutions. 18 interviewee from 9 organisations; 16 participants were from Islamic financial institutions management level and two participants were from Islamic financial institutions regulatory bodies	--



N	Author/s	Year	Country/ ies	Method	Sample	Theory
12	Elmogla	2009	Libya	Content analysis- Questionnaire	270 annual reports over five years, representing 54 Libyan companies from different sectors. 303 participants in 4 groups: investors, academic accountants, financial managers, and government officials	--
13	Hossain and Hammami	2009	Qatar	Disclosure checklist	25 listed firms of Doha Security Market	Agency
14	Pratten and Mashat	2009	Libya	Content analysis- Questionnaire	56 companies' annual reports- 438 participants involved in accountancy	--
15	Salama	2009	Egypt	Content analysis	50 most active companies in Cairo and Alexandria Stock Exchange (CASE)	--
16	The National Commercial Bank	2009	Saudi Arabia	Questionnaire survey	483 from different stakeholder groups	--
17	Rizk et al.	2008	Egypt	Disclosure index	34 annual reports	--
18	Kamla	2007	9 of Arab MENA countries	Content analysis	68 companies' annual reports	--
19	Katsioloudes and Brodtkorb	2007	Emirates	Questionnaire	403 companies executive managers	--
20	Alsaeed	2006	Saudi Arabia	Disclosure index	40 listed companies in 2003	--
21	Hanafi	2006	Egypt	Content analysis- Interviews	279 annual reports for 82 companies over 4 years- 12 semi-structured interviews with corporate managers	Social contract- Stakeholder, legitimacy, political economy
22	Maali et al.	2006	16 Middle Eastern countries	Disclosure index	29 Islamic banks' annual reports	--
23	Naser et al.	2006	Qatar	Content analysis	21 companies' annual reports	--
24	Saaydah	2005	Jordan, Bahrain and Kuwait	Content analysis	19 Kuwaiti companies, 17 Bahraini companies and 39 Jordanian companies for 2001	Decision usefulness, Economic theory, Social political theory
25	Mashat	2005	Libya	Content analysis- Questionnaire	224 annual reports of 56 companies over 4 years - 438 questionnaire	Accountability

N	Author/s	Year	Country/ies	Method	Sample	Theory
26	Ahmad	2004	Libya	Content analysis- Questionnaire	The annual reports of the largest ten industrial companies, internal reports and specific environmental reports. 53 participants of directors of finance and administration management, and secretariats and members of the general people's committee	Environment Determinism
27	Suwaidan et al.	2004	Jordan	Disclosure index	annual reports of 65 industrial companies	--
28	Al-Khater and Naser	2003	Qatar	Questionnaire	143 participants of four user groups	Accountability
29	Jahamani	2003	Jordan and the Unites Arab Emirates	Questionnaire	94 decision-makers of U.A.E. companies and 86 decision-makers of the Jordanian companies of four sectors: industry, commerce, insurance, and finance.	--
30	Abu-Baker and Naser	2000	Jordan	Content analysis	143 companies' annual reports	--
31	Naser and Baker	1999	Jordan	Questionnaire	206 of academics, government officials, finance managers, and public accountants	--
32	Abu-Baker and Abdel-Karim	1997	Jordan	Questionnaire	71 members of the accounting community in Jordan	--
33	Al-Basteki	1997	Bahrain	Content analysis	25 Bahraini listed companies	--
34	Abu-Baker	1995	Jordan	Questionnaire	206 participants of four groups: financial managers, public accountants, academics, officials	Stakeholder, Legitimacy, Accountability

**Note:** This table shows studies which have been conducted in Arab MENA countries regarding CSD. The table includes the author, year, country, methods, samples, and the theory which was applied in each study.

**Table 3.2: Summarising the Number of Studies by Country**

Country(ies)	Number of Studies
GCC countries	11
Egypt	4
Jordan	5
Libya	7
Other MENA countries including GCC countries	6
Lebanon	1

**Note:** This table shows the number of studies listed in Table 3.1 by country.

A review of the studies listed in Table 3.1 is provided below based on the country(ies) in which they took place as follows: studies that have taken place within the Gulf Cooperation Council<sup>18</sup> (GCC) countries are presented in Section 3.2.1; studies undertaken in Egypt are reviewed in Section 3.2.2; Section 3.2.3 presents the studies which have been conducted within a Jordanian context; Section 3.2.4 reviews the studies done in Libya; and finally studies which have been done within different Arab MENA countries, or which included any Arab MENA countries, are presented in Section 3.2.5.

### **3.2.1 Studies in GCC Countries**

A study that covered the six GCC members (Saudi Arabia, Kuwait, The United Arab Emirates, Bahrain, Qatar, and Oman) was reported by Khasharmeh and Suwaidan (2010). They empirically looked at manufacturing organisations based within the markets of the GCC countries. They examined CSD within the annual reports of these companies, in addition to investigating several company characteristics which were thought to be associated with information disclosure. A disclosure index was created and applied to the annual reports of a sample of 60 companies that were listed on the financial markets of the six member countries of the GCC. The findings showed that of the 45 items included in the index, the average score was 26%, and furthermore just eight companies achieved a rate higher than 40%. It was also found that the scale of the organisation and also the auditor type are major variables associated with the differences in CSD amongst companies in the sample. Their results

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<sup>18</sup> In 1981, The Gulf Cooperation Council (GCC) was established. Its members looked to draw on the benefits of sharing economic, business and technical resources and knowledge. The represented Arab nations are based around the same general cultural principles, and are Islamic nations. Furthermore, they retain an economic separation from OPEC, and each state is considered to be amongst the richest countries in the world per capita. The largest member of the GCC is Saudi Arabia, with the headquarters based in Riyadh. The GCC consists of six members: Saudi Arabia, Kuwait, Bahrain, Qatar, the United Arab Emirates, and the Sultanate of Oman (About, 2013).

regarding the positive effect of the audit type on CSD was inconsistent with the result of the Saaydah (2005) study who found it to be an insignificant factor.

Razak (2015) conducted a study in Saudi Arabia to investigate CSD practices by Saudi listed companies and to find out whether firm characteristics (size, leverage, profitability, environmental sensitivity and consumer proximity) are potential determinants of CSD. He applied content analysis to a sample of 166 Saudi listed companies' annual reports in 2013. He also used regression analysis to study the relation between the aforementioned firm characteristics and companies' CSD. The results showed that CSD provided by the sample varied across companies and industries with 66% of the sample disclosing such information. The results revealed that both employee and community disclosure categories were the most disclosed categories respectively. Furthermore he found that both company size and profitability have a significant impact on CSD provided by Saudi listed companies, while the industry type and the leverage do not have the same impact. Razak supported legitimacy theory in explaining CSD by Saudi companies as, he argued, they provided such information to respond to public pressure or in order to build or maintain companies' legitimacy. Accordingly, CSD "can be viewed as a constructed image or symbolic impression of itself that a firm conveys to the outside world to control its political or economic position" (p. 2396). He also stated that:

"The findings highlight the need for improvement by Saudi Companies in many areas, especially in regard to the regular updates of corporate social responsibility information provided on their annual report" (p, 2388).

The study by The National Commercial Bank (NCB) (2009), in Saudi Arabia, argues that many organisations in Saudi Arabia are involved in social and environmental activities and even those businesses that lack a formal CSR framework are involved in certain informal

CSR activities. The study aimed to investigate the perspectives of different stakeholder groups, including employees, customers, government and private sectors, media and nongovernmental organisations regarding the impact of CSR through conducting a questionnaire survey with 483 participants. The study highlights the recent impact of growing CSR activities and disclosures on corporate reputation, loyalty and recruitment in Saudi Arabia companies. The results suggested that business stakeholders perceive CSR to be an important activity that can add significantly to the probability of success of an organisation in Saudi Arabia. The most important element of the CSR activities in KSA is considered to be charity for the reduction of poverty in the region. The NCB survey indicates that 35 per cent of the bank's customers suggested that they prefer to deal with banks involved in CSR activities, while 62 per cent of the respondents believed that CSR facilitates the development of a stronger relationship between the customers and the business; 49 per cent view involvement in CSR activities as an indication of good ethical practices adopted by the company and 41 per cent of the shareholders agreed that they would recommend a bank involved in CSR to other investors. The results provide some strong indications about CSR. Fifty per cent of the respondents agreed that CSR involvement should lead to enhanced brand loyalty and about 60 per cent suggested that involvement in CSR activities provides an organisation with a highly motivated workforce to give their best to the organisation. About 83 per cent of the respondents in the study believed that unemployment is the main CSR issue that corporations need to address and 56 per cent of the respondents agreed that businesses are better able to attract investors if they are involved in CSR activities.

Another study by Alsaeed (2006) was conducted in Saudi Arabia to investigate the level of voluntary disclosure provided by non-financial Saudi listed companies, as well as to examine

the effect of companies' characteristics on the extent of such disclosure; characteristics examined comprised size, industry type, age, profitability, debt, ownership dispersion, return on equity, liquidity, and audit firm size. The sample contained the annual reports of 40 companies in 2003. The researcher applied a disclosure index containing 20 voluntary items including five items about CSR information (information on training and workers development, social and environmental activities, competitive environment, average compensation per employee, and percentage of foreign and national labour forces). The results revealed that the average level of CSR voluntary disclosure reported by the sample was 0.33 percent of the total voluntary information disclosed; the reason suggested for this low level of disclosure was that "this type of information is voluntary in nature, and no existing disciplines set out by the authoritative accounting and reporting bodies in Saudi Arabia require public firms to display such information" (p. 491). The results also showed that there is a significant relationship between a company's size and its voluntary disclosure while such a relation did not exist between the other tested variables and the level of voluntary disclosure.

An early study in Bahrain was conducted by Al-Basteki (1997). He examined the level of CSD and the presence of a number of factors, which are industry type, company size, and profitability, in 25 Bahraini listed companies. He found that CSD, in general, is still weak within the sample. The results also revealed that there is a positive relationship between the company's size and the level of CSD, and also that the industry type has some effect on the level of CSD, while no relation was observed between profitability and the amount of CSD provided by companies.

Katsioloudes and Brodtkorb (2007) studied CSR including the disclosure of CSR in the United Arab Emirates. They applied a questionnaire survey on 403 companies' managers from all private sectors in the Non-Free Zone<sup>19</sup> of the Dubai economy. In regards to reporting CSR information, the results demonstrated that 62% of participants recorded that their company did not report information related to CSR.

A number of CSD studies have been conducted in Qatar, which is one of the GCC countries that has a similar environment to Saudi Arabia. One of these studies was conducted by Al-Khater and Naser (2003) who applied a questionnaire survey to explore the perspectives of 143 participants across four stakeholder groups (bank officers, academics, accountants and external auditors) regarding CSD in Qatar. The respondents revealed that there is a perceived need to expand the scope of CSD in a separate section, or within the board of directors' statement within the annual reports. The survey results also revealed that there is a perceived need to introduce appropriate regulation for the stability of CSD which will be helpful in overcoming the expectation gap, because the financial user assumes complete CSD by companies. Respondents thought that these disclosures were helpful for the environment of Qatari society; as well as being useful for customers, they may help protect the environment, and contribute to the development of corporate human resources. The findings and suggestions showed support for CSD in Qatar and is consistent with Naser and Baker (1999) who conducted their study in Jordan and found that laws and legal obligations are important reasons behind CSD.

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<sup>19</sup> The difference between a Free Zone company and a Non-Free zone company is that the foreign ownership (non GCC nationals) can be 100% of a company in the first zone but can only be up to 49% of a company in the second zone: ownership by GCC nationals can be up to 100% of a company in either zone (Fedrick, 2013).

A later study by Naser et al. (2006) was also conducted within Qatar. They applied the content analysis method to annual reports of 21 out of the 22 companies from the Doha Stock Exchange list. They described differences in the range of corporate voluntary disclosure within a CSD context and found that differences in CSD were associated with the company size measured through the market capitalisation of the company, and business risk measured by leverage and corporate growth. Moreover, the result of the study was described as giving limited support to political economy theory, legitimacy theory, stakeholder theory, agency theory, and finally the accountability approach.

Another study in Qatar was reported by Zubek and Mashat (2015). They aimed to assess CSD provided on companies' websites made by institutions listed on the Qatar Exchange. They also attempted to understand the dynamic between the companies' activities and the CSD provided on these companies' websites. The content analysis method was applied to a sample of 42 listed companies' web pages operating across seven sectors that provided their profile on the market website in September 2012. The results revealed that the majority of the sampled firms have a link to their annual reports on their website. In addition, the results seems to support, to some extent, legitimacy theory, whereby an organisation will disclose CSR information on the basis that it will allow them to justify their actions to their stakeholders. It was also shown that the level of disclosure varied greatly between different business sectors, and overall, the practice of using the website to provide CSR information by Qatari companies is still considered low.

Moreover, Hossain and Hammami (2009) conducted an empirical analysis of 25 firms listed on the Doha Security Market (86% of total market), with the aim of examining the factors behind voluntary disclosure (generally, and not just CSD) within annual reports. The study



also looked into the relationship between companies' specific characteristics and voluntary disclosures of the firms studied. A disclosure checklist containing 44 items was generated to allow the examination of the organisations' total voluntary disclosures. There were three CSD related items amongst these 44, which are: the sponsoring of public health and recreational projects, information on donations to charitable organisations, and supporting national pride/ government- sponsored campaigns. From this checklist a statistical analysis was performed utilising multiple regression analysis. It was found that the most significant variables that are associated with disclosure are age, size, complexity and assets-in-place. However, profitability was found to be insignificant in regard to explaining voluntary disclosure.

One more study was initiated by Aribi (2009) who empirically investigated the impact of Islam on CSR and disclosure. He compared the level of CSD provided by Islamic financial institutions with conventional financial institutions that were both operating in GCC countries which have similar political, economic and social environments, but only investigated the perspectives of the Islamic financial institutions' managers on CSR and disclosure. The researcher applied content analysis to compare the extent of CSD amongst 42 financial organisations' annual reports which were equally split between Islamic and conventional institutions. Interviews with 18 managers of some of the Islamic institutions were carried out with the aim of understanding their views on CSR and disclosure. The study's findings suggested that CSR and disclosure within financial institutions is greatly influenced by Islamic principles.

"The principle of accountability to Almighty Allah was found as the prominent driver for CSR and CSRD in Islamic financial institutions<sup>20</sup>. This accountability is based on the relationship between individuals and

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<sup>20</sup> CSRD refers to corporate social responsibility disclosure which is termed CSD in this study.

businesses, and Almighty Allah. Accountability in this context means not only a duty to report performance, but performing ethically in the first place" (Aribi, 2009, p. 4).

### **3.2.2 Studies in Egypt**

A number of CSD studies have been executed in Egypt including: Hanafi (2006); Rizk et al. (2008); Salama (2009) and Hussainey et al. (2011). Rizk et al. (2008) aimed to investigate the nature of CSD provided in the annual reports of 60 Egyptian companies in 2002 operating in nine sectors. A disclosure index including 34 items was applied to analyse the annual reports. They found that companies' annual reports included CSD information, although the volume was low and the nature of information provided was mostly descriptive. In addition, the type of industry is considered to have a major effect on the patterns and disclosure categories.

Hanafi (2006) applied content analysis to examine CSD in the annual reports of 82 Egyptian companies over four years (279 annual reports) and compared these practices with their counterparts in the UK. He also investigated the perceptions of 12 corporate managers by conducting semi-structured interviews. The results revealed that Egyptian companies were disclosing social information, although the amount and quality of information were lower than UK companies. On the other hand, the results showed that the pattern of information was generally similar in both countries; for instance, the most mentioned information related to employees, followed by environmental information and society involvement, whereas customer information ranked lowest. However, due to the differences in legal disclosure requirements between the two countries, as well as partial or noncompliance with legislation in Egypt, the differences on disclosure categories between the two countries emerged. The interviews showed that the CSD practices observed were perceived to be due to a number of conflicting motives as well as both internal and external factors impacting in shaping the

practices of CSD. Both Islamic principles and Egyptian culture are considered as important in affecting their CSD practices, as well as the effect of Western capitalism. However, the study found that the country's development level, the type of industry and corporate size were more powerful explanations of CSD via the internet and their websites.

Another study by Salama (2009) examined CSD of Egyptian companies via their websites, as well as investigating whether these companies care about community as an important stakeholder via internet social reporting. By using content analysis to analyse the annual reports of 50 major Egyptian companies, he found that companies which work in telecommunication and construction industries are more likely to provide CSD than companies in other industries. He also found that the amount of CSD available on the internet and companies' websites has increased since 1999, however, it is still considered well below the community's and stakeholders' expectations. Salama argued that companies provided this kind of qualitative CSD information voluntarily, in the absence of laws and binding requirements, to gain a trustworthy reputation and credibility, in order to enhance the company's image with a broad range of stakeholders.

One more study within the Egyptian context was initiated by Hussainey et al. (2011) to determine the level of CSD provided by listed companies, as well as to study the effect of a number of factors that might affect the level of CSD which include; company size, profitability, liquidity, gearing, ownership type, and audit type. They applied a disclosure index to a sample of 111 Egyptian listed companies for the period 2005–2010. The results revealed that 66% of the sample provided an average of 10 to 50 CSD statements in their annual reports. Also the majority of CSD information provided was related to the

product/customer category. Regarding the factors that might affect the level of CSD they found profitability to be the main factor among the other tested factors.

### **3.2.3 Studies in Jordan**

A number of CSD studies have emerged from Jordan such as Abu-Baker (1995), Abu-Baker and Abdel-Karim (1997), Naser and Baker (1999), Abu-Baker and Naser (2000), and Suwaidan et al. (2004). For example, Abu-Baker (1995) empirically examined Jordanian companies' reporting and disclosure practices, set within the context of the socio-economic and political environment of the country. He used a questionnaire survey, in addition to theoretical and conceptual analysis. The sample chosen for the questionnaire of 131 respondents included financial managers, public accountants and academics who were considered to be the main stakeholder groups. The aim was to obtain data from the questionnaire survey on a number of points including the disclosure of CSR information, as well as looking at views on social responsibility and accountability. The results led to the conclusion that there is unsatisfactory disclosure by shareholding companies in Jordan and more disclosure is required. It was shown that disclosure mainly took place between organisations and a very limited group of stakeholders (e.g. financiers) within a strictly economic domain (financial transactions). It was suggested that Jordanian companies need to expand their disclosure to encourage understanding and discussion that could lead to creating solutions for economic and social problems, and the enhancement of the Constitution and National Charter which encourages equality and social justice, citizens liberty and rights, democracy, and adherence to moral values in line with the teachings of Islam. The study proposes a far wider level of disclosure, which should include CSR reporting, supported by a broad accountability framework.

Another early study within the Jordanian context was conducted by Abu-Baker and Abdel-Karim (1997). They empirically assessed the current framework of corporate reporting and disclosure practices within large organisations based in Jordan in the light of the prevailing social, economic and political environment. The study also looked into potential limitations and restrictions of the framework, offering an alternative approach that may be more suited to the local situation for such practices. The study also aimed to find out the views of a sample of members of the Jordanian accounting community through applying a questionnaire survey in regards to: the notions of CSR and accountability, disclosure of CSR information, the possibility that legal and professional requirements calling for the disclosure of such information might be feasible, and the possibility of implementing such disclosure in Jordan. The results suggested that Jordanian institutions should aim for a broader disclosure that covers more stakeholders, rather than limiting disclosure to appeal to only a narrow set of stakeholders (e.g. providers of finance). Accordingly, providing more information that includes CSR information is proposed. It was also shown that most respondents felt that institutions should release more CSR information for greater transparency, although it was suggested this will rely on professional and legal intervention as companies would be unwilling to disclose such information without these pressures. A final conclusion is that different stakeholder groups, other than providers of finance, should have the right to information or data regarding company's activities that they might be held responsible for.

Another study was initiated by Naser and Baker (1999) in Jordan; they investigated the reasons behind the absence of CSD in Jordanian companies, by conducting a questionnaire survey of 206 participants from four user groups, namely: academics, government officials, finance managers, and public accountants. The outcomes of the study indicate that the most

significant reason is thought to be the absence of mandatory requirements. The perception of financial managers and public accountants revealed that companies need a broad vision to accept the social responsibility of the business, meaning that laws and legal obligations are important reasons behind CSD.

Another study was undertaken by Abu-Baker and Naser (2000) who selected a sample of 143 Jordanian companies from four different groups of industries: manufacturing companies, banking and financial, services, and insurance. They applied content analysis to examine CSD in the annual reports and revealed that modest attention is given to CSD, "from most surveyed companies in terms of space devoted and subjects covered in such disclosure in the annual reports" (p. 18). Most shared themes that are disclosed through the four industrial groups related to community contribution and human resources. It was recommended that Jordanian companies need to give more attention to environmental disclosure. They stated that "the results of the analysis and particularly the themes' ranking are consistent with previous studies which covered developing countries such as Malaysia/Singapore" (p.26). Another finding is that the four groups of companies that were selected for sampling had notable differences in the annual reports; these differences related to types of disclosure (such as monetary, non-monetary, and declarative<sup>21</sup>), amount and location within the annual report (such as Director's report, Chairman's review, separate section, other sections<sup>22</sup>, separate booklet) of CSD.

Furthermore, Suwaidan et al. (2004) empirically evaluated CSD provided by Jordanian industrial organisations within their annual reports, and investigated specific companies'

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<sup>21</sup> A declarative method of disclosing CSR information means providing information that is free of measurement and monetary data.

<sup>22</sup> Other sections in the annual reports include, for example, audited financial statements which is the primarily used section to disclose CSR information within 'other sections'.

characteristics that could explain the differences of CSR information provided in companies' annual reports. They applied a disclosure index containing 37 items to the annual reports of a sample of 65 Jordanian companies operating in the industrial sector. The results showed that, on an average, 13% of the items included in the index were disclosed by the sample, and only three companies achieved greater than 30%. The results also found that company size, profitability and risk are major factors with regards to the level of CSD. Suwaidan et al. stated that "these results suggest that there is a significant scope for additional disclosure in the annual reports of Jordanian industrial companies listed on the ASE<sup>23</sup>" (p. 432).

### **3.2.4 Studies in Libya**

Most of the CSD studies from Arab MENA countries which have been done in a single country were, to the best of the researcher's knowledge, concerned with the Libyan context such as Ahmad (2004); Mashat (2005); Elmogla (2009); Pratten and Mashat (2009); Bayoud et al. (2012a); Bayoud et al. (2012b); Alghodban and Ramli (2015). For example, Alghodban and Ramli (2015) investigated CSD in 61 Libyan companies' annual reports operating in six sectors, namely: banking, services, investment, insurance, oil, and industry over three years (2009, 2010 and 2012). They applied content analysis and a disclosure index. They found that the level of CSD is still low although many companies in the sample provided CSR information through their annual reports. In addition, the findings revealed some differences in the amount and the type of CSR information provided across different sectors and concluded that industry type has a significant effect on CSD.

Pratten and Mashat (2009) examined CSD provided by Libyan companies to find out if Libyan companies followed Western countries when disclosing CSR information or if it has

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<sup>23</sup> ASE refers to Amman Stock Exchange.

its own model affected by the Islamic and socialist environment in which it operates. They applied a content analysis to 56 Libyan listed companies' annual reports over a period from 1999 to 2002 (224 annual reports). They also conducted a questionnaire survey on 438 participants who were involved in accountancy asking them about their attitudes to CSR. They found that CSD practices in Libya are largely different from Western countries; for example, employees information was mentioned most, while customer information ranked last (see also Hanafi, 2006). In spite of what they said regarding the differences between their results from Western countries, Gray et al. (1995b) and Hanafi (2006) found something similar in their studies within the UK context as their findings revealed that employee information was mentioned most while customer information ranked last within the disclosure categories.

A positive relation between the level of CSD and corporate reputation was found in the study by Bayoud et al. (2012a). They applied stakeholder theory as a theoretical framework to discover whether there is any association between CSD and corporate reputation. Thirty-one financial managers and information managers shared their viewpoints about the association between corporate reputation and CSD through interviews. To measure corporate reputation 149 questionnaires were designed to collect data from managers and employees; 110 annual reports of 40 Libyan companies were used to measure the level of CSD, using content analysis. The outcomes from the analysis showed that CSD is seen as the most important practice to strengthen company reputation with stakeholders; CSD impacted on the internal and external viewpoints of reputation. In view of these results, the researchers argued that companies need to give more attention to enhancing their reputation by increasing the annual reporting of CSD. The results of the interviews revealed views that suggested that in order to



improve the company's reputation, there is a need to give more attention towards the disclosure of issues affecting customers, environment, community involvement, and employees, while the results of the questionnaire and content analysis showed a greater concern for customer and employee disclosure to improve a company's reputation.

"Hence, the results of this paper provide a good support for the use of a combination of stakeholder theory with resource-based perspectives to explicate the impact of CSRD<sup>24</sup> on some organisational performance in terms of corporate reputation by Libyan companies" (Bayoud et al., 2012a, p. 158).

Moreover, from the perspective of financial managers, a company's reputation is improved by increased transparency as it is the most important reason for CSD in their opinion (Bayoud et al., 2012a).

A related study done by the same researchers investigated factors which impact on the level of CSD in Libyan companies. Bayoud et al. (2012b) used regression analysis on 40 Libyan companies' annual reports between 2007 and 2009; moreover, 31 information managers and financial managers were interviewed to give their views about the determinants of CSD. The results of the regression analysis showed that a company's age and type of industry has a significant impact on the level of CSD while company size did not have the same impact. However, the interview respondents believed that all the factors (age, size and type of industry) have a strong impact on CSD levels which could explain differences in the amount of CSD in Libyan companies. The authors believed that the outcomes of the study support stakeholder theory, as this theory is appropriate to determine the CSD practices of Libyan companies, because it reflects those variables that are associated with the social aspects of stakeholder concern (Bayoud et al., 2012b).

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<sup>24</sup> CSRD refers to corporate social responsibility disclosure which is termed CSD in this study.

Further to that, views and perceptions regarding CSD and accountability in a Libyan context have been studied by Mashat (2005). Content analysis was applied to 224 annual reports of 56 companies over four years operationg in four sectors namely; insurance, banks, manufacturing, and other services. The study also explored the views of 438 participants in five groups of published accounts' users (financial managers (or accountants); government officials, bank credit officers, academic accountants, and external auditors) regarding CSD and accountability within Libya by aconducting a questionnaire survey. It was found that most Libyan companies have provided some CSD, especially information regarding employee and community involvement (see also, Kamla, 2007; Elmogla, 2009; Razak, 2015), however this amount was considered low compared with corresponding companies in developed countries. This relatively low level of disclosure was attributed to the lack of CSD awareness in Libya, and the absence of social pressure on companies to provide this kind of information. Also, it was observed that the country was still suffering from weaknesses in the accounting profession, as well as a lack of mandatory social disclosure requirements. The study found that there is no direct relation between providing CSD information and the type of industry in regards to the main CSR themes, however, there is a positive relation between the amount of CSD provided and the type of industry. Libyan companies, it was found, still provide CSD information to serve the needs of specific groups of stakeholders, although companies believed that providing more CSD will have a positive overall impact on social and economic matters at the macro level. Mashat believed that setting laws which require companies to provide CSD will be more helpful than professional guidelines:

"There was general agreement that the annual reports should reflect the interaction between the business operations and the society in which they operate, recognizing the right of different stakeholders to information about the actions for which the businesses could be held responsible. The law was viewed as the key source of establishing such responsibilities and developments in current practice rather than professional guidelines" (p. i).

Another study by Elmogla (2009) empirically explored CSD in Libyan organisations. The study attempted to analyse the existing CSD in companies' annual reports, and to find out the views of various stakeholder groups in regard to the practices involved and potential future developments. Over the period of 1999 to 2002 (four years), a total of 56 companies' annual reports, both public and private, were analysed using content analysis. In addition, four stakeholder groups, containing 303 participants, namely: academic accountants, financial managers, government officials and investors were asked to complete a questionnaire and give their views and experiences of CSD within Libya. The results of the content analysis showed that whilst there was some level of disclosure of CSR information, it fell some way below the level displayed by counterparts in developed nations. It was found that the most commonly shared areas of information related to employees and community involvement. These findings are backed up by earlier studies by Mashat (2005) and Kamla (2007), and also the study by Razak (2015). Further findings of the questionnaire suggest that stakeholders would like CSR information to be provided within companies' annual reports, and specifically, they would like this to have its own dedicated section within annual reports. Respondents also consider that the release of social and environmental information can lead to macro level socioeconomic benefits.

Ahmad (2004) examined the scope of corporate environmental disclosure within Libya with the goal of checking its compatibility with Environmental Determinism theory<sup>25</sup>. This was achieved by providing a longitudinal description of the extent of corporate environmental

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<sup>25</sup> Environmental Determinism theory as Ahmad (2004) described it in the context of his study considers how corporate environmental disclosure (CED) "practices in a country are shaped not only by one single factor but by both the external and internal factors. The impact of the external factors reflects the indirect influence on the CED...Whereas, the internal factors reflect the direct impact of those involved in the disclosure process, namely the managers as they are the ones who have the final say on what information to disclose, especially in the case of voluntary disclosure...environmental determinism theory overcomes such shortage by using a combination of external (intra-country) and internal (inter-organisational) factors to explain CED practices in a given country (three-dimensional analysis). It includes and widens the scope of political economy theory" (p. 75).

disclosure submitted by the organisations that occupied the top ten positions, in terms of size, on the Libyan Industrial Production Administration over the period 1998- 2001. The researcher analysed the sample of annual reports, internal reports and specific environmental reports (where these existed) with regards to corporate environmental disclosure practice cross-referenced against social, economic and political measures using content analysis. The researcher also conducted a questionnaire survey to obtain the views of 53 managers of the aforementioned companies regarding corporate environmental responsibility and disclosure. The findings of the content analysis revealed that corporate environmental disclosure does not yet have a footing in Libya. Furthermore, it was concluded that there is no evidence of environmental disclosure outside of health and safety information. In the interests of balance, it should be declared that Libyan organisations do provide a certain level of information surrounding health and safety aspects within companies' annual reports, or even some internal or external reports (specific forms). The results also revealed that Libyan companies have given some attention to disclosing negative news which is in contrast with their counterparts, even in developing countries. The results of the questionnaire noted that whilst managers within Libyan organisations felt that they should be doing more with regards to environmental responsibility and disclosure of such information, they were prevented from engaging with such disclosure due to a lack of knowledge, qualification and training, and the absence of set guidelines surrounding environmental disclosure. As a consequence of this lack of basic infrastructure, it was suggested that most Libyan organisations have failed to incorporate environmental disclosure. It was found that social factors including religion are having some impact on corporate environmental disclosure practices. Likewise, the country's unique regional context, as well managerial qualifications and attitudes, are considered important factors that determine corporate environmental disclosure in Libya. The study

concluded that there are both internal and external factors that determine environmental disclosure practices in Libya. The internal factors can be considered to be perception and cognition, and are based around managers who are involved directly in the disclosure process whilst the external factors such as social, economic and political factors reflect the indirect influences on the disclosure environment (Ahmad, 2004).

### **3.2.5 Cross-Country and Other Studies**

An important study regarding CSD was undertaken by Kamla (2007). It covered all of the GCC countries in addition to Egypt, Jordan and Syria. Kamla applied the content analysis method to the reports of 68 selected companies from the aforementioned countries for 1999/2000, to examine the social accounting and reporting indicators with respect to their nature, quality and volume and to discover the potential and actual CSD practices within the nine Arabic counties. She classified disclosure into four categories: economic, environmental, general social and other cultural characteristics of the report. Two of them, general social and environmental, were given most and least attention respectively by the disclosing companies (Kamla, 2007). It has been observed by Kamla that the Arab Middle East countries are unsuccessful in endorsing the accountability and transparency of companies. This could be ascribed to the absence of reliability of disclosure or *ad hoc* and incomplete disclosures that are made with no assurance statement. Kamla suggested that company position and image building means that there is only likely to be positive disclosure. Furthermore, she stated that the results of her study were, to some extent, similar and comparable with most content analysis studies in the UK:

"For instance, Gray et al.'s (1995b) study, probably the most comprehensive content analysis study of corporate social and environmental reporting in the UK (for the period between 1979 and 1991) and this study, found the employee-related disclosures were the most

common theme on which to report on in the period studied. Community disclosure was also widely practised. Customer-related disclosures, however, seemed to be less emphasised in Gray et al.'s (1995b) sample than in this current study. Gray et al. (1995b) observed that customer-related disclosure remains 'very low' in the UK sample. The higher level of disclosure in annual reports of Arab companies relating to customer relations could be due to the policy of making new efforts towards market liberalisation and in respect of the encouragement of private capital in the Arab world...Environmental disclosures by companies in this current study appear to be at a much lower level than reported in the UK study. Gray et al.'s (1995b) study noted that environmental disclosure rose significantly throughout the period (1979-1991) and was no longer a 'marginal activity' after the mid-1980s" (p. 146).

Kamla said that the social reporting quality in Arab Middle East countries displays some similarity to the UK practices:

"As far as the quality of social reporting is concerned, Arab companies' social reporting practices discussed in this study seem to be similar to the practices in the UK as elaborated in the majority of UK studies. UK studies into social and environmental disclosures have, as well, concluded that the narrative form of disclosures was the most common with very little quantitative information" (p. 147).

She also found that main issues included in social reporting of Arab Middle East companies are similar to the content of CSD in European countries. According to Kamla, major components of social disclosure are country specific which means that despite what is traditionally covered within CSD, differences are found in the themes of the disclosure between countries. Kamla illustrated that the similarities between accounting in Arab Middle East countries and European countries are based on their colonial past; these shared practices reflect the supremacy of the Western accounting profession that is embedded in their economies. Themes of disclosure imitate the social priorities of a country's own economy.

A study by Saaydah (2005) empirically investigated CSD across Jordan, Kuwait and Bahrain, and attempted to relate the current level of total CSD to a number of corporate characteristics

and government influence. The content analysis method was applied to examine the annual reports of a sample of 75 companies across Kuwait (19 companies), Bahrain (17 companies) and Jordan (39 companies) in 2001. The findings demonstrated that "the only significant differences among countries are in quantitative and monetary forms, as well as, in the human resource field of total CSD" (p. 435). These differences were noted between Jordanian companies and both the Kuwaiti and Bahraini companies; such differences did not exist between the two Gulf countries. The findings also showed that company size and profitability are solid predictors of CSD, whilst factors such as the age of a business, industry sector, and auditor type are not significant factors. In addition, government intervention to enforce greater disclosure is more effective than direct stock ownership to encourage companies to be more socially responsible and to improve disclosure of their activities. The results of Saaydah regarding the insignificant effect of auditing firms on CSD are in contrast with the results of the Khasharmeh and Suwaidan (2010) study which found that the auditing firm has a major impact on CSD differences between companies operating in six Gulf countries.

Jahamani (2003) studied three environmental aspects in two developing countries which were Jordan and the UAE. He conducted a questionnaire survey of two samples of corporate decision-makers in each country, including 86 participants from the Amman Financial Market Directory and 94 participants from the United Arab Emirates Industrial Directory for the year 1998 in four sectors (industry, commerce, insurance, and finance), to examine aspects of environmental awareness, environmental involvement, and environmental reporting. It was found that all decision makers were aware of environmental protection issues, but their commitment to environmental protection was still low; in addition, a minority of them were reporting on environmental performance. The similarity in

environmental reporting, environmental awareness and environmental involvement between both Jordan and the UAE were thought to reflect their similar circumstances.

A single study within the Lebanese context was completed by Menassa (2010). He identified the type and quality of social information disclosed by Lebanese commercial banks. He also examined the extent of social disclosures when set against factors including size, financial performance, age, international exposure, and listing status. The study applied content analysis to analyse the nature of the CSR information provided in the annual reports of a sample of 24 commercial banks. The results found that social disclosures are a common and well established method for banks to communicate with their stakeholders. It also found that the banks place a great emphasis on disclosing information about human resources, products and customer relations, when compared with environmental disclosure which was noted to be somewhat limited. Other findings included a significant relationship between the level of disclosure and both size and financial performance (profitability) of the banks. However, there appeared to be little evidence of a relationship between the level of CSD and the age of the institutions. Also, there was no significant relationship found between disclosure and the international exposure of a bank, or its public/private status. Menassa's finding regarding the disclosure of employee information was consistent with the results of the Mashat (2005), Hanafi (2006), Kamla (2007), Elmogla (2009), Pratten and Mashat (2009) and Razak (2015) studies. However his finding regarding the high level of the customer and products disclosure category was in contrast with the findings of the Hanafi (2006) and Pratten and Mashat (2009) studies which found the disclosures of this category to be the lowest of all their categories, while it was compatible with the Hussainey et al. (2011) study's result.



Some studies, such as Maali et al. (2006), Kamla and Rammal (2013) and Farook et al. (2011) focus on the study of CSD by Islamic banks working in Arab MENA and other countries around the world. Maali et al. (2006) studied the social reporting of Islamic banks of 16 Arab MENA countries including Saudi Arabia, to observe the range of social disclosure provided by Islamic banks. The CSD of Islamic banks has particular characteristics because their social disclosure is based on Islamic laws and Shari'ah<sup>26</sup>. The annual reports of 29 Islamic banks were subjected to study and were selected for disclosure index analysis. The average volume of social disclosure was 25 sentences, with 13.3% of the report measured as the average level of disclosure. The findings revealed that disclosures of "social issues are not of major concern for most Islamic banks" (p. 285), which suggested that Islamic laws are unsuccessful in fulfilling the social requirements. The social disclosure was limited to certain categories for example, Zakat, unlawful transactions, Shari'ah opinion and issues concerning workers. They stated that:

"Social reporting by Islamic banks falls significantly short of our expectations. The results of the analysis also suggest that banks required to pay the Islamic religious tax Zakat provide more social disclosures than banks not subject to Zakat" (p. 266).

Another study conducted by Kamla and Rammal (2013) discussed whether Islamic banks are supportive in boosting justice in the distribution of resources and reducing poverty by focusing on revealing whether certain themes related to social justice are present or absent from their annual reports and websites. The sample included 10 Islamic banks around the world in 2008. The detailed study applied content analysis that was focused on the quality, the nature of disclosure and their significance. They found that the disclosure by Islamic

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<sup>26</sup> Shari'ah is the Islamic law of human conduct, which regulates all matters in the lives of Muslims. It is based on God's holy word in the Quran, the deeds and sayings of the prophet Mohammed (Sunnah), and the consensus of Islamic religious scholars.

banks suggests that they have no proper schemes that target poverty elimination or enhance social justice in society. The failure of the Islamic banks to provide CSD related to these activities is lacking; this could be due to weaknesses in the regulation and public pressure on the banks to fulfil a social role.

However, Maali et al. (2006) suggested that Islamic banks, which have to pay the Islamic religious tax termed as Zakat, provide better social disclosure than other banks which are not required to pay these taxes, "with a little exceptions, (sic) Islamic banks could meet the expectations of the Islamic community" (p. 286).

Farook et al. (2011) attempted to develop a more complex theoretical model of the determinants surrounding Islamic banks' social disclosure level. The extent of the social disclosure level was subjected to hypotheses testing, and used traditional Islamic principles as the benchmark to test the annual reports of Islamic banks. They applied systems-oriented theories including political economy theory, stakeholder and legitimacy theories, and agency theory, with hypotheses linking both Islamic social disclosure and its determinants being developed. The sample covered a broad geographical region, including 47 Islamic banks across 14 countries with the distribution as follows: Pakistan (8), Bahrain (6), Bangladesh (5), Kuwait (5), Saudi Arabia (5), Iran (4), United Arab Emirates (3), Jordan (2), Malaysia (2), Qatar (2), Turkey (2), Egypt (1), Sudan (1), and Yemen (1). Data was collected regarding the dependent variable (the social disclosure of Islamic banks) mainly presented in the form of annual reports, as well as the independent variables (the determinants) collated from a variety of sources. The results revealed that CSD by Islamic banks varied significantly across the selected sample. The results of the regression analysis suggested that both 'influence of the relevant publics' and the 'Shari'ah (SSB supervisory boards) corporate governance

mechanism' variables are best in explaining the differences of CSD by Islamic banks. In addition to this and according to different variable measures, both 'level of social and political freedom' and 'the proportion of investment account deposits to total assets' are considered major determinants of CSD within Islamic banks. To conclude, it can be said that there are several factors that were found to affect CSD of Islamic banks that include socio-political pressures and economic incentives.

As can be seen, a number of the studies discussed here examined the effect of companies' characteristics (especially size, profitability and industry type) on the level of CSD. All of these studies found company size to be a significant factor affecting CSD (see, for example, Al-Basteki, 1997; Suwaidan et al., 2004; Saaydah, 2005; Alsaeed, 2006; Hanafi, 2006; Naser et al., 2006; Hossain and Hammami, 2009; Menassa, 2010; Bayoud et al., 2012b; Razak, 2015). The majority of the studies found industry type to have an important effect on CSD (see, for example, Al-Basteki, 1997; Mashat, 2005; Hanafi, 2006; Rizk et al., 2008; Bayoud et al., 2012b; Alghodban and Ramli, 2015), however, their findings were inconsistent with the findings of some other studies which found no significant effect between industry type and CSD (such as, Saaydah, 2005; Alsaeed, 2006; Razak, 2015). Regarding the impact of a company's profitability on CSD, a number of studies found a significant impact between them (see, for example, Suwaidan et al., 2004; Saaydah, 2005; Menassa, 2010; Hussainey et al., 2011; Razak, 2015), but other studies did not find such an effect (such as, Al-Basteki, 1997; Alsaeed, 2006; Hossain and Hammami, 2009).

As can be seen from this review, there is a limited number of studies that have been conducted in Arab MENA countries, and most of these studies have been done in Libya,

Jordan and Egypt. This makes a study focusing on the situation in Saudi Arabia welcome and timely.

### **3.3 Summary and Conclusion**

This chapter focused on CSD studies in Arab MENA countries to shed light on the position of CSD in these countries. CSD is often considered a Western phenomenon, and there have been extensive studies on CSD within the European and American contexts over the past decades, which have contributed to the development of understanding of the CSD perspectives of corporations and their stakeholders in those regions. However, limited research on CSD has been conducted in other parts of the world. According to the limited number of studies which have been done in Arab MENA countries, it can be seen that previous studies have provided very little specific detail about CSD practices in Arab MENA countries especially in Saudi Arabia. This could be because CSR and CSD are still considered new fields of (social) accounting in Arab countries. These findings from the literature add to the impetus to pursue a study of the Saudi Arabian perspective on CSD. The studies suggest that corporations in Saudi Arabia seem to be lacking in the exercise of CSD, and this study posits that this may be because the practices of CSD are not yet well organised or have no clear image in the Saudi Arabian context. Thus, it falls upon this academic researcher to explore, and help to define the Saudi Arabian perspective of CSR and disclosure as a possible step towards policy development for its improvement.

These findings have encouraged me as an academic and a researcher to undertake more investigation and to provide evidence of organisations in Saudi Arabia which do provide social information, or which do not, as well as finding out the reasons for their attitudes to CSD and whether to disclose or not. It is also important to find out the perspective of

different stakeholder groups regarding CSD, and the extent to which they care about having this type of information.

This chapter has presented studies focused on CSD which were conducted in Arab MENA countries with a particular focus on Saudi Arabia. The next chapter will provide an overview on Saudi Arabia as a background to the present study.

## **Chapter 4 : Saudi Context**

## **4.1 Introduction**

"Accounting does not exist in a vacuum but interacts with an existing environment" (Al-Rehaily, 1992, p. 50). Accordingly, before examining the accounting system of any country, the environment of accounting in that country should be studied. The business and accounting environment in a country is affected by socio-cultural and economic implications.

The aim of this study is to explore CSD by listed companies and stakeholders' perspectives in regards to CSR and disclosure issues in a Saudi Arabian context; therefore, this chapter provides the necessary background information on the Kingdom of Saudi Arabia (KSA) that could aid understanding of the business and accounting environment. According to Al-Rehaily (1992), "this basic background is important, particularly for readers in the Western World,...since many of them may know little of Saudi Arabia except its main product, crude oil" (p. 5).

This chapter includes nine sections. It starts with the provision of general background information on KSA, then its political system, continuing with KSA culture will be outlined. After that, it presents the legal system of the country, followed by the economy of the country, then its financial system. Next, the business regulations environment in KSA will be examined and afterwards accounting within the country will be explained followed by the kingdom's role in environmental protection. Finally, a summary and conclusion will be drawn.

## **4.2 Background of Saudi Arabia**

The land mass of Saudi Arabia is spread over 2,150,000 square kilometres (830,000 square miles), which is around one-fourth of the size of the United States, and it occupies almost 80

percent of the Arabian Peninsula (Ministry of Foreign Affairs, 2006). The Kingdom is characterised by its strategic location at the crossroads of Asia, Africa and Europe; it is located in the south Western corner of the continent of Asia, and bordered by Kuwait, Iraq and Jordan to the north. In the south, KSA borders both Yemen and the Sultanate of Oman; while the Arabian Gulf (of which the coastline stretches about 560 kilometres- 350 miles), the United Arab Emirates and Qatar border the country to the east. Finally, it is bordered by the Red Sea to the west (which has a coastline stretching about 1,760 kilometres- 1,100 miles) (Ministry of Foreign Affairs, 2006). The total population of Saudi Arabia is about 28 million, including about nine million foreign residents (Census, 2011). Riyadh is the capital city, and is located in the middle of the Kingdom and accommodates the seat of governance, the state ministries, and the embassies of foreign countries (Ministry of Commerce and Industry, 2012; Saudi Embassy in USA, 2012). The country is home to two of the holiest places for Muslims in the world namely Makkah (Mecca) (the direction of all Muslim prayer in the world) and Medina (city of the Prophet Mohammed). These two cities present major pilgrimage destinations and comprise the Holy Land for millions of Muslims around the world; more than three million Muslims travel to the kingdom every year to perform pilgrimages (either Umrah<sup>27</sup> or Hajj<sup>28</sup>). The country contains 13 provinces, each with its own provincial capital (Ministry of Foreign Affairs, 2006).

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<sup>27</sup> There is no specific time for the Umrah, it can be performed at any time during the year or during the Hajj pilgrimage. Umrah is a visit to the Holy Mosque in Makkah, to perform Tawaaf (circumambulating) seven circuits around the Kaaba and then to seek a mountain between Al-Safa and Al-Marwah (seven runs back and forth between them). People should ihram (which is the intention to perform Umrah and Hajj) and also must shave or cut the hair for men and just cut it for women after finishing performing Umrah (Islamweb, 2012).

<sup>28</sup> Hajj, the annual pilgrimage to Makkah is obligatory on every Muslim to perform at least once in his or her lifetime provided that Muslims are economically and physically sound. In the Islamic calendar, it occurs from the eighth to the twelfth of Dhu-al Hijjah month. There are many events and rituals in Hajj that represent a clear depiction of the life of the prophet Ibrahim (Abraham) and his wife Hagar. During this journey, pilgrims walk around the Kaaba seven times, run back and forth between the hills of Al-Safa and Al-Marwah, stand vigil on the Mount of Arafat, throw stones at the Devil and sacrifice an animal to adhere to the ritual sacrifice of an animal to celebrate the festival of Eid-al-Adha (Berkley Centre, 2012).



**Figure 4.1: Map of the Kingdom of Saudi Arabia**



Arabic is the official language of the Kingdom and Islam is the official religion, which is espoused by the whole Saudi nation and "its influence pervades all aspects of life in the country, including accounting practices and the accounting profession" (AlKhatani, 2010, p. 84). The Saudi Riyal (SAR) is the country's currency, which is divided into 100 Halalas; the US Dollar is equivalent to 3.75 Saudi Riyals (Ministry of Commerce and Industry, 2012). There are two public holidays, Eid-al-Fitr, which comes after Ramadan month (the fasting month), and Eid-al-Adha; the Arabic calendar (Hijra<sup>29</sup>) is in official use.

According to the Ministry of Foreign Affairs (2006), the history of the establishment of the Kingdom of Saudi Arabia can be divided into three periods: the first period starts from 1744 and lasts till 1818. When the hard work of Al-Imam Mohammad Bin Saud was finally

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<sup>29</sup> The Islamic calendar, known as the Hijra Calendar, is in accordance with the lunar calendar which comprises 12 months that rely upon the stages and phases of the moon. The Islamic calendar is relatively shorter than the Christian Calendar. It is the sacred duty of Muslims to properly observe it (Web Exhibits, 2012).

successful, the first country came into existence prior to which a number of conflicts existed, and it was called the Kingdom of Saudi Arabia according to the house name, and Islamic legislation was adopted (Al-Rumaihi, 1997; Ministry of Foreign Affairs, 2006). However, the country did not stay like this for long due to interventions by the Ottoman Sultan, who instructed the Egyptian ruler Mohammad Ali Basha to reoccupy the area. He entrusted the task to his son, who succeeded in eliminating the first Saudi state (Al-Rumaihi, 1997; Ministry of Foreign Affairs, 2006). The second period started in 1824 when the Saudis regained power which lasted until 1891; during that time, invasion by the Egyptian military and misunderstandings between rival tribes led to the removal of the Saudi ruling family again. Nevertheless, the country continued to prosper and develop (Ministry of Foreign Affairs, 2006). The third period of rule began in 1902 when Bin Saud succeeded in retrieving Riyadh and continues to this day. Currently Saudi Arabia stands as an eminent country in the region. The nation was deemed united by royal decree on September 19<sup>th</sup>, 1932 and the united region was declared as the Kingdom of Saudi Arabia (KSA) (Ministry of Foreign Affairs, 2006).

### **4.3 Political System**

#### **4.3.1 Background Information**

According to AlKhatani (2010), "the political system is one of the most significant influences on the accounting profession in any country" (p. 84). The political system of Saudi Arabia is dependent on the laws provided by Islam and the Arab system. The customs designed by the King Fahd Bin Abdulaziz Al Saud on 27-8-1412H (02-03-1992) are meant to tie in with the principles designed by Shari'ah and Arabic laws. These give due importance to the Arabic language (Ministry of Foreign Affairs, 2006; Saudi Embassy in USA, 2012). It is also notable

that the ultimate authority in Saudi Arabia is the King who is responsible for making all significant decisions (Ministry of Foreign Affairs, 2006). To assist his rule, the king selects a Crown Prince who assumes the next level of authority (Saudi Embassy in USA, 2012). However, the line of succession to the throne is not strictly adhered to as it is determined that in the best interest of the Kingdom is the most important criterion according to the Islamic laws. The King appoints and terminates the Crown Prince by a royal order (Ministry of Foreign Affairs, 2006).

The Saudi system is an absolute monarchy and the kingdom has had no experience of democracy. In 1922 the Law was mentioned in the Royal decree No A/90 and stated that Saudi Arabia is a Kingdom which will be ruled by the male descendants of King Abdulaziz Al Saud (Saudi Embassy in USA, 2012). It further establishes that the constitution of the country is the Holy Quran and Sunnah (the prophetic guidance), and all the basic principles of rule in the Kingdom are based on Shari'ah (Basheikh, 2002).

#### **4.3.2 Government System**

It could be argued that the ultimate authority of a country is its political and administrative system. As mentioned previously, the Kingdom of Saudi Arabia is based around the monarchy, reiterated by King Fahd in a new law by Royal Decree No A/90 in 1992. This law reinforces that the constitution of Saudi Arabia is based on the Quran and the Sunnah of the Prophet Mohammad (Peace be upon him) (Ministry of Commerce and Industry, 2012). The constitution is contained in nine chapters and comprises eighty-three articles. The Council of the Ministers and Majlis Al-Shura (The Consultative Council) represent the two main administrative components of the government. These two bodies have the power to approve

and initiate all administrative authority (Basheikh, 2002); they are described more fully in the following subsections.

#### **4.3.2.1 The Council of Ministers**

The Saudi Cabinet is formally called the Council of Ministers; this body is entrusted with assisting the King and helping to develop the country. The Council comprises the Prime Minister (the King), the Deputy Prime Minister (Crown Prince), 23 ministers and seven ministers of state (Saudi Embassy in USA, 2012). The function of the cabinet is to help the King carry out his duties by determining the progress of all the administration related to internal and external affairs such as finance, the economy, education and defence (Basheikh, 2002; Saudi Embassy in USA, 2012).

#### **4.3.2.2 The Consultative Council (Majlis Al-Shura)**

Majlis Al Shura stands as a vital authority in the Saudi legislative system. Although the system is a monarchy, the King needs to consider the composition of a defined elite class. The council of 150 members is appointed by the King, and sits in Riyadh. The Council includes the King who is the leader of the Council and is also the Prime Minister, the Crown Prince who is the Deputy Prime Minister, the Second Deputy Prime Minister and Cabinet ministers. The Council rules for a fixed term of four years (Council of Ministers, 2010; Saudi Embassy in USA, 2012). Council members ought to be at least 30 years of age and Saudi nationals (Ministry of Foreign Affairs, 2006).

### **4.4 Saudi Arabian Culture**

Hofstede (1980) carried out an empirical study on cultures in which he placed a number of Arab countries, including KSA, together in one homogenous group with the only spoken

language being Arabic (Al-Rumaihi, 1997; AlKhatani, 2010). The following discussion is focused on Saudi Arabia (AlKhatani, 2010).

Saudi culture is deeply influenced by Islam and Islamic norms. It has also been influenced by trade and the Bedouin culture. It is notable that there have been various reforms in Saudi culture over the years. Saudi tradition has somewhat modernised and this is reflected in cultural norms, including, for example, hospitality and the dress code which have been deeply influenced by modern developments in the rest of the world (Saudi Embassy in USA, 2012). This study adopts Hofstede's four dimensions in a discussion of Saudi culture.

(1) Power Distance: this can be defined as:

"the extent to which the less powerful members of institutions and organisations within a country expect and accept that power is distributed unequally. Institutions are the basic elements of society, such as the family, the school, and the community; organisations are the places where people work" (Hofstede et al., 2010, p. 61).

Hofstede distinguished between large power distance societies based on two categories: general (which includes school, family, and workplace), and politics and ideas prevailing within countries (Hofstede, 1980). Arab countries belong to the league of high power distance countries as pointed out by Hofstede. There are various tribes in Saudi society and the way the tribes regulate depends upon the personality of the individual who heads the tribe. The head of a tribe is one who makes all the important decisions. However, it is important to note that there is an uneven distribution of wealth in Saudi Arabia such that the majority of the population has limited resources and means, and relies upon a minority with power and wealth (Sabri, 1995, as cited in Alkhatani, 2010).

(2) Uncertainty Avoidance: Because religion is the main source of authority in KSA, it assists in curtailing insecurity. Saudi society belongs to the category of high uncertainty avoidance authorities, as defined by Hofstede, as Saudi society seeks protection and tends to be nationalistic (Basheikh, 2002). Arab countries, especially Saudi Arabia, have been regarded as countries which are higher in uncertainty avoidance as opposed to other countries such as the USA and UK but lower than that of France and Japan (Hofstede, 1980). Undeniably, religion plays an important role in forming the culture in Saudi Arabia (AlKhatani, 2010).

(3) Individualism vs. Collectivism: Another feature recognised by Hofstede in 1980, is that Arab countries favour collectivism. Saudi society is highly dependent upon relationships amongst peers and family. Children are expected to stay close to their parents, to look after them when they grow old, and to obey and serve them which is the influence of Islam and therefore collectivism remains high in the society (AlKhatani, 2010).

(4) Masculinity vs. Femininity: Islam forbids its followers from distinguishing between men and women (Al-Rumaihi, 1997; Basheikh, 2002), but present day Arab countries are highly masculine societies and none more so than the society of Saudi Arabia. Although both genders have equal rights to be a part of business activities in KSA (based on the law), the workforce is largely dominated by males which makes the position of women less dominant as they are less able to enter all the high level ranking positions<sup>30</sup>. On the other hand, according to AlKhatani (2010) and Hofstede's findings, the masculinity-femininity dimension does not have a strong influence on accounting and therefore there is no clear link between this dimension and particular features of Saudi accounting culture.

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<sup>30</sup> Women's situation in Saudi Arabia has been changing over recent years, and, as evidence, the Consultative Council law required that women representation must not be less than 20% of its membership (The Shura Council, 2016).

Based on Hofstede's findings, it can be seen that Saudi Arabia ranks high in terms of uncertainty avoidance and masculinity and also has a high rating for power distance and is strongly collectivist. Hofstede's model has been used by Gray (1988) to relate social values to accounting values in which he argued that accounting values have an influence upon accounting systems.

Therefore it can be seen that accounting systems are impacted by the distinct features of Saudi culture, which leads us to think that there is an association between Saudi accounting culture and Gray's accounting values that can be based on Hofstede's dimensions (AlKhatani, 2010).

#### **4.5 Legal System**

Islam is the official religion of Saudi Arabia, and all aspects of life are based on Islamic teachings (AlKhatani, 2010). The Islamic law is often termed as Shari'ah. As discussed above all legalities and settlements in Saudi Arabia are required to be conducted in accordance with Shari'ah (Saudi Embassy in USA, 2012). The Holy Quran is the major source of Shari'ah and, after the Quran, Sunnah<sup>31</sup> which contains the sayings and the teachings of Prophet Muhammad (Peace be upon him). The second sources of Shari'ah are Ijma<sup>32</sup> and Qiyas<sup>33</sup> analogy (Saudi Embassy in USA, 2012). Theologians in the early decades of Islamic religion considered the former to be the interpretation of certain Islamic traditions, while they considered the latter the instrument to resolve new problems emerging from

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<sup>31</sup> The Islamic Sunni sect has four major schools of thoughts called Malki, Shafeai, Hanafi and Hanabli. The shari'ah in Saudi Arabia follows Hanabli doctrine (Ministry of Justice, 2012).

<sup>32</sup> Ijma is considered mandatory after the Quran and Sunnah. Ijma is the beliefs and consensus in thoughts of Ulema (Shari'ah scholars) on the issues that involve guidance that happen after the death of Prophet Muhammad (Saudi Embassy in USA, 2012).

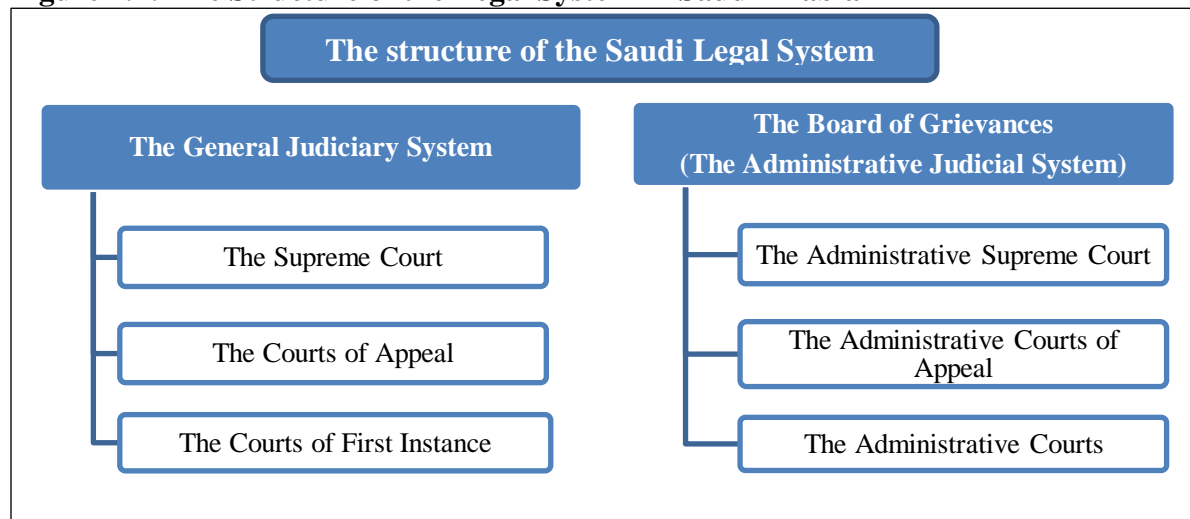
<sup>33</sup> Qiyas is "the use of deduction by analogy to provide an opinion on a case not referred to in the Quran or the Sunnah in a comparison with another case referred to in the Quran and the Sunnah" (Gait and Worthington, 2008, p. 3).

cultural and scientific developments based on principles from the Quran and Sunnah (Basheikh, 2002).

The Saudi Ministry of Justice assesses the functions and responsibilities of more than 300 Shari'ah courts established by King Faisal in the year 1970. Like all the other ministers, the Minister of Justice is also selected by the King (Saudi Embassy in USA, 2012).

The legal system of Saudi Arabia consists of two broad structures; the General Judiciary system and the Board of Grievances (the Administrative Judicial system). Figure 4.2 demonstrates the structure of the legal system of Saudi Arabia.

**Figure 4.2: The Structure of the Legal System in Saudi Arabia**



**Note:** The figure shows the two structures that comprise the Saudi legal system.

The General Judiciary system is divided into three types of courts: the Supreme Court, the Courts of Appeal, and the Courts of First Instance (Saudi Embassy in USA, 2012). The Supreme Court is a single court in the KSA, based in the city of Riyadh. Its goal is to ensure the safe monitoring of the application of the provisions of Islamic Shari'ah, and that the King's decrease, as the ruler of the country, do not create conflicts. In addition, it reviews the



judgments and decisions issued or supported by the courts of appeal in murders and other important cases (Ministry of Justice, 2012). The Supreme Court is higher than the other two courts, namely the Courts of Appeal and the Courts of First Instance. The Courts of Appeal, also called "second-class courts", are found in every region in the country. They consider judgments, subject to appeal, that are issued by the Courts of First Instance which are located in their district, and produce judgments after hearing the statements of opponents according to the procedures prescribed in the Shari'ah Procedure Law, and Law of Criminal Procedure. The Courts of First Instance are spread amongst all the provinces and regions of the country, and specialise in examining and judging cases that are located each courts' particular geographic area. The courts' verdicts are subject to appeal with the exception of judgments in petty cases that are determined by the Supreme Judicial Council. In order to organise the Courts of First Instance's work they have been divided into General courts, Penal courts, Personal Status courts, Commercial courts and Labour courts (Ministry of Justice, 2012).

The Board of Grievances, which is also called the Administrative Judicial system, is directly linked to the King, and specialises in judging cases in which the state is involved. This system is divided into three types of courts: the Supreme Administrative Court, the Administrative Courts of Appeal, and the Administrative Courts of First Instance (The Board of Grievances, 2016). The mechanisms of these courts' actions are the same as those applied by the courts in the general judicial system.

The Saudi Arabian legal system is formed by the Islamic Shari'ah law which regulates all aspects of financial and commercial transactions. This means that financial regulations enacted by Western economies may not be suitable in Islamic countries due to the difference between Islamic and Western culture, principles and traditions (Baydoun and Willett, 2000).

According to Lewis (2001):

"In addition to providing a set of business ethics, Islamic economic and financial principles have a direct impact upon accounting practices and policies. These principles include, most importantly, the institution of Zakat (the religious levy) and the prohibition of Riba (usury), and the institution of an interest-free economic system" (p.104)

For example Riba, is a concept/ ruling meaning interest on capital is not allowed. The Holy Quran emphasises the prohibition of Riba as it involves the exploitation of people. For those who lend money, it is unacceptable for them to have an assured and pre-determined return while borrowers assume risk. As far as Western accounting standards are concerned, this is a major obstacle to the implementation of this system as interest forms an essential part of the Western commercial framework and affects issues such as amortisation and restructuring of debt (White, 2004).

Alternative financing arrangements have been offered by Shari'ah. Mirakhor and Zaidi (2007) stated that: "in Islamic finance, interest-bearing contracts are replaced by a return-bearing contract, which often take the shape of a partnership" (p. 49). They highlight the basic types of financial contracts which have been approved by various Shari'ah boards as being in compliance with Islamic finance: such as musharaka, mudaraba and murabaha. They defined musharaka as "partners who contribute capital to a project and share its risks and rewards" (p. 51), and mudaraba is "a form of partnership in which one partner (rabb al-mal) finances the project, while the other party (mudarib) manages it" (p. 51). Based on pre-defined percentages in such lending contracts- between banks and investors, profits are split amongst those involved. The concept of profit and loss sharing holds great significance regarding the profitability of physical investment on the part of the creditor. Murabaha, cost-plus financing, is where:

"the bank agrees to buy an asset or goods from a third party and resells the goods to its client with a mark-up. The client purchases the goods against either immediate or deferred payment" (p. 52).

The distinguishing factors between Murabaha and interest-based lending are that the mark-up in Murabaha is not stipulated within a certain time period. For example, if a client cannot pay on time then the mark-up does not increase from the agreed price because of this delay. Furthermore, the bank bears any associated risks as it owns the goods between the two sales (Mirakhor and Zaidi, 2007).

According to Sulaeiman (2003, as cited in AlKhatani, 2010), Shari'ah law varies in accordance with certain aspects of Western accountancy and also gives rise to a need for information, which Western accountancy does not provide as far as Zakat is concerned. However, Ibrahim (2000) argues that one of the prime aims of Islamic accounting is the calculation of Zakat and, because of this, there is a need for an accurate system of accounting that can compute and disclose the amount of Zakat payable. Studies show that conventional Western treatment of assets is not appropriate for these calculations and does not provide the correct calculation of the amount of Zakat payable (White, 2004).

AlKhatani (2010) stated that

"there is a need for accounting standards to deal with the procedures and mechanisms involved in Shari'ah-compliant financial transactions in Saudi Arabia, and to meet the needs of Saudi Arabian users" (p. 89).

## **4.6 Economic System**

### **4.6.1 Background Information**

Different Arab tribes ruled Western Asia in the past and Saudi Arabia was regarded as a poor or traditional country due to the socioeconomic environment whereby the majority of the

people were living in villages or small towns (Al-Rehaily, 1992). The country's economy was heavily dependent upon revenues that were received from pilgrims who underwent the holy journey to Makkah and Medina and also from agriculture and grazing (Al-Rehaily, 1992; AlKhatani, 2010). In this environment, there was not much need for accountancy (Elkharouf, 1985, as cited in Alkhatani, 2010), but this situation changed in 1930 with the discovery of oil (AlKhatani, 2010).

Today, KSA is the largest free market economy in the Middle East and North Africa with a share of 25% of the total Arab GDP. The geographic location of Saudi Arabia facilitates access to the Asian, African and European markets and the Saudi market serves the purpose of expanding a domestic market with an annual population growth of 3.5%. This continuously expanding market has led to a population with an increased buying power. Investors are welcomed and given a free hand in the Saudi markets; where policies are friendly and liberal for business. A recent Foreign Investment Law allows 100% foreign ownership of commercial projects and of real estate in KSA. Moreover, the region has also been stable politically and economically throughout its existence (Ministry of Foreign Affairs, 2005).

#### **4.6.2 The Role of Oil in the Saudi Arabia Economy**

Oil reserves in the Kingdom were discovered by a US group of geologists. This discovery did not lead to the extraction of oil until World War II had ended. Oil has played a vital role in developing the economy of the Kingdom. Production began in the 1960s and experienced a sudden and noticeable increase in the 1970s (Al-Rehaily, 1992; U.S. Department of State, 2008; AlKhatani, 2010). Having a massive reserve of oil, the Kingdom stands to control one quarter of the entire world's oil reserves. For this reason, it is the biggest oil producer in the

world. Oil accounts for more than 90% of the KSA government's total exports and generates 75% of the government's revenues (U.S. Department of State, 2008). More than 95% of oil production is undertaken by the government, through the Saudi ARAMCO which is wholly owned by the Saudi government. The state marketing and refining company (SAMAREC) merged with ARAMCO in June 1993 which led to ARAMCO becoming the world's largest oil company (U.S. Department of State, 2008).

Following the Arab-Israel war in 1973, petroleum prices and revenues rapidly increased in 1974 and, as a result, Saudi Arabia emerged as a rapidly growing economy. Trade increased to a high level with many countries resulting in increased government revenues and more imports. This resulted in economic development and reforms in defence and other dimensions, which were seen as positive steps for the Arab and Islamic World (U.S. Department of State, 2008).

#### **4.6.3 Developments Plans**

A global recession in 1967<sup>34</sup> resulted in a drop in oil prices, leading to relative economic instability. Because of this, the Saudi government realised the potential of a move away from an economy based on a single commodity, and created and expanded other sources of revenue for the country (Al-Rehaily, 1992). Accordingly, five year development plans were formulated by the Kingdom in which it decided to use the petroleum profits to diversely in order to maintain a more developed and stable economy (Basheikh, 2002).

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<sup>34</sup> "While progress during the 1960s was indeed spectacular, the Middle East crisis of 1967, brought to the fore inherent weaknesses in the Saudi economy. Apart from its heavy dependence on oil, the economy had become increasingly reliant on imports for both consumer goods and capital equipment. The closure of the Suez Canal and intermittent disruptions of the Tapline, due to the Arab-Israeli war, adversely affected the Kingdom's oil exports as well as essential imports. As a result of all these events the balance of payments went into deficit for the first time in nine years" (Al-Rehaily, 1992, p. 82). Tapline is an oil pipeline, it is "a massive construction project and engineering feat, was built and put into operation in 1951" (Wynbrandt, 2010, p. 199).

In the first plan (1970-1975) the Kingdom focused on reforming its infrastructure, particularly public utilities, and on improving government services. The second plan (1975-1980) focused on agricultural and industrial expansion as avenues for diversification of the economy. However, during the execution of the third plan (1980-1985) the focus changed from infrastructure to education, health and societal changes and reforms. The two industrial cities of Jubail and Yanbu were notable for the production of steel, fertilizer, petrochemicals and refined oil. Later during the fourth period (1985-1990), infrastructure was developed consistently and further development in education and training continued. Private investment in the Kingdom was welcomed and the government, along with private companies, showed significant success in achieving their objectives (U.S. Department of State, 2008).

In the fifth plan (1990-1995) the focus was to increase spending on the defence of the country and to address its societal duties and responsibilities. The aim was also to decrease the number of foreign workers and increase private sector employment. In the sixth plan (1996-2000), the government lowered the cost of services and focused on developing educational and training programs. It was further noted that the government aimed to decrease reliance on oil and aimed to increase its economic development by developing the private sector, specifically in agriculture and industry. The government also aimed to "Saudiize" the working class (which is to employ native Saudis in private companies rather than foreigners, which should reduce the unemployment rate in Saudi society). The goal of the seventh plan (2000-2005) was to ensure economic stability by encouraging and maximising the role of the private sector. The government set an objective to increase its GDP growth rate to 3.16% annually. The eighth plan (2005-2010) was also concerned with economic development while encouraging women and increasing their role in society. It also sought to establish further

technical universities and colleges for the purpose of increased economic development. There was increased focus on private investments and economic stability while promoting tourism to make KSA a more developed economy (U.S. Department of State, 2008).

#### **4.6.4 Privatisation**

As mentioned earlier, a primary concern of the Saudi government is to promote privatisation and it is making certain efforts in this regard. Investments are being made in the following sectors: power, airlines, railways, ports and water services (Ministry of Foreign Affairs, 2005). With the establishment of the Supreme Economic Council (SEC), the government has succeeded in bringing privatisation to a more satisfactory level. The objective of establishing the SEC is to help investors and open markets in a way that increases economic stability and development. Privatisation is mainly encouraged by the SEC, which also takes into consideration all the policies related to the economy and the budget along with its allocation. It also critically examines the economic, industrial and agricultural policies and debates in the governmental sector. The ultimate goal of the SEC is to stabilise the Saudi economy and its development so that further success can be achieved (Ministry of Foreign Affairs, 2005).

A report by the United Nations states that between 1975 and 1995, GDP from the private sector increased by 24% reaching half of the total GDP, three quarters of which was not accumulated from oil. Also the private sector has been more successful in KSA when compared to certain developing countries, especially in Latin America (Hassan, 1998).

The government of KSA remains committed to stimulating the development of the private sector and the diversification of the economy (SAGIA, 2006). The Saudi government is in the

process of implementing a plan in which move towards a more passive and start supervisory role in relation to the economy instead of the dominant one (Al-Dehailan, 2004).

#### **4.6.5 The Economy's Impact on Accounting**

The fast-paced Saudi Arabian economy has impacted the accounting profession considerably. Increased consumption has arisen from the rise in per capita income from oil revenues. The majority of sectors have been involved in development plans because of the large amount of money that has been invested (Al-Rehaily, 1992). The past 30 years have witnessed a lot of changes with KSA being active in business enterprises with the trend moving from conservative individual or family-owned businesses to more corporations and partnerships (Capital Market Authority, 2009). The early 1970s witnessed an expansion in the number of corporations which has led to a demand for accounting services and also an increase in the number of firms who offer such services (Al-Rehaily, 1992).

#### **4.7 Financial System**

Like all the primary industrial countries, Saudi Arabia has a regulatory and financial system establishing standards for conducting business in the country. In particular the Kingdom has a developed and modernised banking structure (Ministry of Commerce and Industry, 2012). As the commercial sector expands, the Kingdom gains more value as it has, or at least claims to have, capable and trustworthy financial structures and mechanisms as well as a reliable market (Ministry of Commerce and Industry, 2012).

The financial system of the Kingdom is composed of the Ministry of Commerce and Industry, a Central Bank (Saudi Arabia Monetary Agency 'SAMA'), the Capital Market



Authority (CMA), the Saudi Stock Market (TADAWUL), and a number of lending institutions and commercial banks.

#### **4.7.1 Ministry of Commerce and Industry**

In 1954, a Royal Decree No. 5703/5 was issued to establish the Ministry of Commerce and Industry. Its main role related to the monitoring, oversight and regulation of commercial activities within the KSA. The Ministry is responsible for issuing and implementing new regulations, initiating and implementing trade policies, developing and maintaining foreign trade relations, encouraging local trade, helping expand production and export of non-oil products and overseeing company law (Ministry of Commerce and Industry, 2012). According to Alamri (2014) "the Ministry is concerned with developing plans for improving the skills and qualifications of Saudi citizens in order for them to offer more to the economy and replace foreign workers" (p. 19).

#### **4.7.2 The Saudi Arabian Monetary Agency (SAMA)**

The central bank of Saudi Arabia, the Saudi Arabian Monetary Agency (SAMA), was established under two royal decrees issued in 1952. Its main functions are to deal with the banking affairs of the Government; minting and printing the national currency (Saudi Riyal 'SAR'), strengthening the Saudi currency and stabilising its external and internal value; managing the Kingdom's foreign exchange reserves; managing monetary policy for maintaining the stability of prices and the exchange rate; promoting the growth of the financial system and ensuring its soundness; supervising commercial banks and exchange dealers; supervising cooperative insurance companies and the self-employment professions relating to insurance activity; supervising finance companies; and supervising credit information companies (SAMA, 2015).

SAMA became the regulator of the Saudi Stock Market in 1984. It was responsible for all the regulations of the stock market until July 2003 when the Capital Market Authority (CMA) was established.

#### **4.7.3 The Capital Market Authority (CMA)**

The CMA was based on Capital Law and came in to being by Royal Decree number M/30 in 2003. The role of the CMA is to regulate all the market activities and satisfy investors by keeping a check on market operations (TADAWUL, 2012). Accordingly, the CMA has a number of duties which include to: regulate and develop the capital market and promote appropriate standards and techniques for all sections and entities involved in Securities Trade Operations; protect investors and the public from unfair and unsound practices involving fraud, deceit, cheating, manipulation, and inside information trading; maintain fairness, efficiency, and transparency in transactions of securities; develop appropriate measures to reduce risks pertaining to transactions of securities; develop, regulate, and monitor the issuance of securities and trading transactions; regulate and monitor the activities of entities working under the CMA; and regulate and monitor full disclosure of information related to securities and issuers (Capital Market Authority, 2015).

#### **4.7.4 Saudi Stock Market (TADAWUL)**

In the 1930s joint stock companies were first established in the Kingdom with Arab Automobile being the first of its kind. Within a few decades, the number grew and rose to 14 public companies in 1975 ( TADAWUL, 2012). The companies were mostly from the cement and energy sectors (Basheikh, 2002). At this time, the stock market had a limited number of brokers i.e. 32 who conducted sales to a specific class of the Saudi society, rich families in particular (Basheikh, 2002). As the government intended to grow the economy on a wider

scale, besides the Saudization of part of the foreign banks capital in 1970, various corporations and joint stock banks continued to be established ( TADAWUL, 2012).

In the 1970s, the government was active in establishing certain joint stock companies by way of secondary investment agencies. These agencies include the Retirement Pensions Agency and the General Organisation for Insurance; such agencies assisted in establishing many companies (Basheikh, 2002). Capital was also invested by the Public Investment Fund<sup>35</sup>. The stock market underwent noticeable growth in the late 1970s and 19 new companies, such as joint ventures and primary international institutions<sup>36</sup>, were made public (Basheikh, 2002).

Basheikh (2002) stated that in the 1980s, as a result of increased oil prices increased transactions and securities led to huge economic development. This resulted in the government's greater potential to invest in a number of projects and programmes being undertaken by the joint stock companies. The estimated value of the Saudi Basic Industrial Corporation (SABIC) was SAR 3 billion and the government took forward a step to privatise 30% of SABIC. It has therefore been claimed that Saudi development was due to the government's interest and efforts (Basheikh, 2002). By the year 1985, 57 companies were listed on the stock market having a share capital of SAR 52 billion. It has also been claimed that the reason for the emergence of such companies was the Saudization of commercial banks (Basheikh, 2002).

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<sup>35</sup> The Public Investment Fund (PIF) "was established by Royal Decree No. M/24, dated 25-06-1391H corresponding to 17-08-1971. The purpose of establishing the PIF was to provide financing support to productive projects which are of a commercial nature and are strategically significant for the development of the national economy and cannot be implemented by the private sector alone either because of insufficient experience or inadequate capital resources or both" (Ministry of Finance, 2013).

<sup>36</sup> Those ventures included Citibank (Currently SAMBA Financial Group), British Bank of the Middle East (Currently Saudi British Bank), ABN-Amro (Currently Saudi Hollandi Bank) and Banque Indosuez (Currently Saudi Franci Bank) (Basheikh, 2002).

The market was not closely regulated until the 1980s when the government felt that additional rules and regulations should be applied. For this purpose, a Ministerial Committee was formed in 1984 comprising the Ministry of Finance and National Economy, Ministry of Commerce and SAMA ( TADAWUL, 2012).

In October 2001, SAMA established the TADAWUL system for the purpose of managing shareholding in the Kingdom. This service provides all necessary information about the companies and is updated every minute ( TADAWUL, 2012).

The Saudi Stock Exchange (TADAWUL) Company was formed on March 19<sup>th</sup> 2007 following the final approval of the Council of Ministers. Article 20 of the CML formed the basis for the formation of TADAWUL ( TADAWUL, 2012). TADAWUL plays an important role which includes operating the market effectively and efficiently; ensuring market integrity, quality, and fairness; supporting investor education and awareness efforts; developing service excellence for customers (brokers, issuers, investors, vendors, etc.); and developing the exchange's capabilities and competencies ( TADAWUL, 2012).

In terms of market capitalisation, the Saudi Stock Market is one of the largest stock markets in the Arab world, worth SAR 562.01 billion in the second quarter of 2012 ( TADAWUL, 2012). Table 4.1 shows the 154 joint stock companies listed on the Saudi Stock Market, belonging to 15 sectors.

**Table 4.1: Size of the Saudi Stock Market as at the Second Quarter of 2012**

Sector	Number of Companies	Value Traded SAR (millions)	% To Market
Banks and Financial Services	11	55,027	9.79 %
Petrochemical Industries	13	92,644	16.48 %
Cement	11	31,699	5.64 %
Retail	10	11,062	1.97 %
Energy and Utilities	2	4,557	0.81 %
Agriculture and Food Industries	15	29,920	5.32 %
Telecommunication and Information Technology	5	73,253	13.03 %
Insurance	33	83,360	14.83 %
Multi-Investment	7	27,412	4.88 %
Industrial Investment	14	18,611	3.31 %
Building and Construction	15	29,528	5.25 %
Real Estate Development	8	82,576	14.69 %
Transport	4	12,238	2.18 %
Media and Publishing	3	3,356	0.60 %
Hotel and Tourism	3	6,769	1.20 %
<b>Total</b>	<b>154</b>	<b>562,012</b>	<b>100.00 %</b>

Source: <http://www.tadawul.com.sa>

**Note:** This table shows the size of TADAWUL as a whole and contains details of the number of companies of each economic sector as well as the value traded (in SAR) and the percentage of each sector to the whole economy.

Onour (2004) claimed that the Saudi Stock Market was not considered to be as efficient as those of most developed countries, although it is a substantial market compared to those in similar developing countries. When the stock market crashed in 2006, it was a wake-up call to the Saudi Stock Market; regulations and requirements for greater disclosure and compliance to improve corporate governance were formed in July 2006 and submitted for approval to the "Saudi Organisation for Certified Public Accountants" (SOCPA). The CMA has also made an effort to attract foreign investment by promoting and developing the financial reporting of companies so that it is informative and clearer for investors (CMA, 2007).

One of the important laws set up by the CMA, which has a direct effect on companies disclosure, is that all listed companies in the Saudi Stock Market have to provide their annual reports for stakeholders via the TADAWUL website by a specific time each year (the end of the financial year). These annual reports typically comprise a cash flow statement, a balance

sheet, an income statement, a profit appropriation statement, a statement of changes in shareholders' equity, a Board of Directors report, an auditor's report, and notes to the financial statements. In addition, some companies provide a Chairman's Statement as well as the directors' reports. However, based on the researcher's own observations, not all companies' annual reports contain all of the listed statements above.

#### **4.8 Business Regulatory Environment in Saudi Arabia**

Every country's economic and business affairs need to be governed by certain laws which are then monitored and adjusted by the government according to the changing needs of society. Saudi Arabia is no exception to this and a number of laws have been enacted. Some of them have subsequently been amended to provide more appropriate regulations in accordance with the needs of the country, however ongoing revisions are still required (Al-Rehaily, 1992).

Some of these laws are discussed briefly below due to their effect on accounting in Saudi Arabia, such as Companies Law, Accountants Law, and Income Tax and Al-Zakat law.

##### **4.8.1 The Companies Law**

In 1965, a Royal Decree was issued concerning Companies Law which was the first attempt to standardise the legal framework for the operation of companies in Saudi. In 1982, many modifications were made by Royal Decree to update the Companies Law and this was amended again by the Ministry of Commerce and Industry in 1992 (Ministry of Commerce and Industry, 2012). Many entities are recognised by Article 2 of the law i.e. Limited Partnerships; Limited Liability Companies; Variable Capital Companies; Partnerships Limited by Shares; Joint Ventures; General Partnerships; Joint Stock Companies; and

Cooperative Companies. These have to be registered in the Commercial Register within the Ministry of Commerce as required by Saudi Law (Al-Rehaily, 1992; AlKhatani, 2010).

In 2002, the recommendations of the ministerial committee, which was created by Royal Decree No. 3151 to study the situation of listed companies regarding internal control, were approved by the Higher Economics Council, and two recommendations were suggested (Ministry of Commerce and Industry, 2012):

- i. To highlight the importance of enhancing the role of internal control in joint stock companies, and the enlightenment of shareholders about their responsible role in monitoring the performance of these companies to achieve their goals.
- ii. To emphasise the adequacy of information contained in companies' financial statements and their final accounts, in order to enable investors to assess companies' performance and access correct views on the performance of these companies to make appropriate decisions to protect their investments.

#### **4.8.2 The Accountants Law**

In 1974, Royal Decree No. 43 enacted the Certified Accountants Law, which is still in effect. The law was the first to regulate the accounting profession in Saudi Arabia, and contains 35 articles that deal with the basic requirements of practising accounting services such as registration conditions, qualifications, procedures and fees, violation and trial proceedings, the responsibility of the auditors and other related issues. Article No. 19, for example, is considered an important article as it created SOCPA which works under the supervision of the Ministry of Commerce to promote and develop the accounting and auditing profession and raise standards (SOCPA, 1991).

#### **4.8.3 The Income Tax and Al-Zakat Law**

The Income Tax Law was instituted by Royal Decree No. 3321, dated 21/01/1370H (02/11/1950). Article (19) of the Law delegated authority to the Minister of Finance to take all necessary actions to put income tax law into effect and collect the stipulated taxes. Based on the Royal Decree, Ministerial Resolution No. 394 was issued on 07/08/1370H (14/05/1951), establishing the Department of Zakat and Income Tax<sup>37</sup> (DZIT) and requiring it to report directly to the Minister of Finance. Royal Decree No. 17/2/28/8634, dated 29/06/1370H (07/04/1951), was also issued, stipulating the collection of "Zakat" from individuals and companies holding Saudi citizenship at a rate of 2.5 percent, in accordance with Islamic Jurisprudence. Based on this Decree, the Ministerial Resolution No. 393, dated 06/08/1370H (13/05/1951), was issued, which included instructions for organising, auditing, and collecting "Zakat" from all Saudis obliged under Islamic requirements, to pay it and later, from all citizens of member States of the GCC who are working in Saudi Arabia (Ministry of Finance, 2012).

Those doing business inside the Kingdom and getting profits from such business<sup>38</sup> are subjected to the auditing and tax collection from foreigners where taxes are imposed by law (segments) (Ministry of Finance, 2012).

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<sup>37</sup> According to the Dept. of Zakat and Income Tax (2012), many duties have been undertaken by DZIT which are summarised as follows:

- Saudis and those who have similar status as GCC citizens in accordance with Islamic jurisprudence should be examined, assessed and be asked for Zakat.
- According to trenches (segments) specified by the law, foreign individuals and companies need to be examined and assessed for collection of taxes.
- To ensure payment of Zakat, income tax and legal fines, there needs to be a follow-up on taxpayers.
- To encourage that there should be voluntary giving of Zakat and income tax by all tax payers.
- There should be proper research and work done as far as income tax collection and Zakat is concerned finding solutions to the problems highlighting Islamic principles for Zakat and rules and regulations for tax collection.

<sup>38</sup> Foreign nationals have to pay income tax as opposed to Saudi nationals since the national infrastructure is supported from oil revenues although both men and women have to pay Zakat if they have £800 or more in money or assets (Al-Mogbel, 2003). Zakat means alms-giving which is to collect religious tax at a minimum



## **4.9 Accounting in Saudi Arabia**

This section discusses accounting education in KSA, the accounting and auditing profession in KSA, and SOCPA.

### **4.9.1 Accounting Education in KSA**

Al-Rumaihi (1997) explained that Saudi accounting has been greatly influenced by foreign education. Faculty members have come from different backgrounds and a variety of university courses are taught in auditing and accounting principles; these courses take the accounting environment in the country where the faculty staff took their degree into account (Al-Rumaihi, 1997). Egyptian academics in particular have exercised influence amongst the accounting departments in Saudi Arabia and have greatly impacted the teaching methods of the accounting courses; for example 80% of the academic staff in King Khaled University are from Egypt. They communicate their advice and ideas to students and also have an influence by their contributions to department policies during their stay (King Khalid University, 2008). Accordingly, Saudi accounting may be indirectly affected by British accounting as Egypt was effectively colonised by Britain (AlKhatani, 2010).

Members of the accounting profession in Saudi Arabia can receive training at King Abdulaziz University; King Saud University and also the University of Petroleum and Minerals but their textbooks come from the USA and Egypt. Lots of academics in these universities received their training in the USA and Egypt, and there are also some members who received training from the UK (Kantor et al., 1995). Thus some educators may teach the

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rate of two and a half percent of total money or assets at the end of every year and this money goes towards the needy people. As per law, it is the duty of every Saudi citizen to pay Zakat and also on the Saudi share of profits from enterprises that are in partnership with foreign investors, however, those who have less than £800 are exempt (Alkhtani, 2010).

accounting standards and systems of developed countries which has had an effect on the nature of accounting in Saudi Arabia (AlKhatani, 2010).

The Saudi government has sent many of its students abroad to developed countries, such as the USA and UK, for higher education to study a range of subjects including accounting and business. The number of these students increased rapidly after the King Abdullah Scholarship program<sup>39</sup> which was implemented by the Saudi government (Ministry of Higher Education, 2011).

From the above, we can see that Western accounting has influenced Saudi accounting education in many ways due to the combination of the effect of different accounting standards from different countries combined with those of Saudi Arabia (AlKhatani, 2010).

#### **4.9.2 Accounting and Auditing Profession in KSA**

Saudi Arabia is a land with large oil reserves. The extraction of large amounts of oil has influenced social, political and economic situations in the Kingdom to a large extent. The country emerged as economically important due to the high revenues generated by oil. This economic advancement laid the foundation of the accounting sector in Saudi Arabia. The need for this profession was further stressed as Saudi investors needed up-to-date information about the global market to face economic pressures and take intelligent investment judgments

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<sup>39</sup> Today knowledge is very important and therefore the Saudi government has given this sector priority. Due to his concern for sustainable growth of human resources, King Abdullah bin Abdulaziz who was the Custodian of the Two Holy Mosques, created the King Abdullah Scholarship program which was designed to support the Saudi universities as well as the society and economy more generally. To launch this program, King Abdullah issued a Royal Decree on 17/4/1426H (26/05/2005) for a period of five years to achieve those aims and the program began by sending a group of male and female students to the USA for higher education. To meet the needs of the labour market in KSA the government broadened its reach by including a number of countries in various fields of specialisation. The Ministry requested King Abdullah to renew its period beginning in 1431H (2010) when the first five stages of the program had been completed and the goals had been met. This request was approved by the King on 4/3/1431H (18/2/2010) which would help many Saudi individuals to realise their goals and aspirations and also supply the government and the private sector with deserving and qualified individuals (Ministry of Higher Education, 2011).

(Basheikh, 2002). In comparison to countries like the USA and the UK, Saudi Arabia's accounting and auditing profession is relatively new and inexperienced as the Kingdom does not have an extensive history of professional employment and practice. The main reason behind this is a different business tradition which was conventionally followed on the Arabian Peninsula. For example, Makkah (Mecca) has always been a trading hub for Saudi Arabia, even before the advent of Islam because of the groups of people visiting to offer pilgrimage (it is a site of ancient worship since the Prophet Abraham) (Falgi, 2009).

From times dating back to the 14<sup>th</sup> century, Muslims followed the Islamic commandments concerning trade. According to these regulations, records of business transactions needed to be kept, so that there is sufficient proof available in case of any misunderstandings:

"O Believers, when you contract a debt for a stated term, write it down; and let a writer write down between you justly." (The Holy Quran, Al-Baqarah, verse 282).

Record-keeping has been a major link to large-scale civilisation and industrial progress in Muslim countries. However, Saudi Arabia entered the contemporary profession relatively late (Falgi, 2009). The Saudi authorities started taking an interest in the accounting and auditing profession in the middle of the 14<sup>th</sup> Hijri century (1930). The maintenance of accounting records was made mandatory under the Commercial Business Regulation issued by Royal Decree No. 32, dated 15.01.1350H (SOCPA, 2012). According to Section 16 of the Income Tax regulations issued in 1950, should the financial statements of a taxpayer be audited by a globally certified accountant then these were to be considered as acceptable and absolute. The accounting and auditing profession was generally approved for the first time in Saudi Arabia with the acceptance of this clause (Falgi, 2009).

A number of reasons accounted for the absence of local auditors. These included less intense financial activity, the deficiency of professionals and the absence of accounting education. Therefore, it is noted that the Kingdom at that time had hardly any firms and, those that did exist, worked in a highly limited economic setting in a new born country with a very basic authoritarian system. These professionals mainly belonged to other countries and followed their distinct practises as Saudi Arabia was so inexperienced and the trade sector was in its initial phases of constructing its infrastructure (Al-Angari, 2004). The situation remained the same until 1955, when the first licence for an audit firm was approved by the Ministry of Finance and National Economy. This was followed by the issue of seven more licences, six of them to foreigners and one to a Saudi. Later, in 1957, the responsibility of issuing professional licences was handed over to the Ministry of Commerce and Industry (Falgi, 2009). The accounting and auditing profession was virtually non-existent before 1950 but, after 1955, a number of licensed audit firms were established. The sector evolved in Saudi Arabia over a period of 15 years, from 1950 to 1965. However, these companies started working in a way that suited them, based on their education, know-how and skills. The profession failed to have a clear identity as it lacked a specialised system of laws and regulations of any sort to stabilise the function of these audit firms and the practice of granting licences (Al-Angari, 2004).

When the Ministry of Commerce issued The Companies Act in 1965, the audit profession in Saudi Arabia was revolutionised. According to this Act, the managers of all firms were to prepare a financial statement and submit it to a certified public accountant (Al-Twaijry et al., 2003). This law was the first of its kind and made it compulsory for companies to have their financial statements audited; prior to that, auditing financial statements was considered only

an option. Although this step was of major importance, there was still no regulatory system that could assess the performance of the auditors, nor was there any organisation to examine certified accountants, so this significant task was left in the hands of the audit firms themselves. This organisational void was partially filled three years later, in 1968, when the Ministry of Commerce presented a group of requirements for licensed audit firms, including their nationality, residence, reputation, qualifications and years of experience. However, an important requirement of passing a professional examination was not included in this law although this requirement is essential in assessing the practical capability of the auditor (Al-Angari, 1999).

To match the sudden development of the country in numerous fields, many parties started focusing on the profession by the beginning of this century (SOCPA, 2012). A Management Sciences College was founded by the King Saud University in 1959. This provided a grand platform so that the demand for national qualified accountants could be met (Falgi, 2009). Many Saudi accountants and auditors derive their inspiration from the Department of Accountancy at this college and therefore an influential part was played by this department in boosting the quality of accounting education in Saudi Arabia (Al-Angari, 1999). At this time most of the accountants and auditors practising in Saudi Arabia were foreigners (Al-Angari, 1999). The department worked hard to further improve the national accounting and auditing profession by arranging conferences to talk about prospective obstacles in the path of this profession and advancement techniques that could be applied (Falgi, 2009). In 1401H (1981), a chain of symposiums was conducted by King Saud University regarding accounting development methods in Saudi Arabia. This helped in reaching appropriate proposals for resolving any problems that may impede the progress of the profession (SOCPA, 2012). King

Saud University got permission to set up the Saudi Accounting Association in 1401H (1981) by the Academic Board. This association aims at supporting accountancy ideas, sharing information and intellectual creations, discussion and carrying out research (SOCPA, 2012).

The economy of Saudi Arabia went through transformation and consequently caused a lot of variations in business and monetary activities (Basheikh, 2002). As mentioned previously, the first law regarding certified public accountants in Saudi Arabia was the Royal Decree No. m/43 in 1974. This was the first step towards organising the profession in the Kingdom. Moreover, this first regulation controlled the audit profession by introducing the Certified Public Accountants Committee, whose objective was to manage the process of issuing licences as well as the administration and improvement of the profession (Falgi, 2009). A noteworthy attempt in developing a corporate authoritative structure in Saudi Arabia was this beginning of the certified accounting and auditing profession (Falgi, 2009). However, accounting in Saudi Arabia was still insufficient and there was an urgent need for a professional body (Al-Rehaily, 1992). These analyses resulted in a new Certified Accountants Law by the Royal Decree number NV12 in 1992 (1412H) (Basheikh, 2002).

#### **4.9.3 SOCPA**

SOCPA was established by Royal Decree number NV12 in 1992, which was an updated version of the 1974 Decree, and established the management of SOCPA (Basheikh, 2002). Efforts were made to reinforce the roots of the accounting and auditing profession by this professional organisation working with accounting and auditing research centres and academic bodies around the world. SOCPA functions in a way similar to that of ICAEW in the UK and AICPA in the USA (Basheikh, 2002). Comprehensive research was conducted by the Saudi Ministry of Commerce, with the aim of expanding the accounting and auditing

profession. Thus, proposals regarding auditing standards and internal organisation arrangements for the profession were made to address the issue of a theoretical outline, which involved the identification of thoughts and goals regarding economic accounting (and considering this structure as a common basis for arrangement and disclosure of financial reports). In 1997, SOCPA implemented the decision usefulness approach as the theoretical structure for their work and the Saudi Accounting Standards Committee (SASC) was set up by SOCPA. By the end of the year 1998, the SASC successfully issued nine standards of accounting while 20 standards were in the preparation stage (Basheikh, 2002).

#### **4.10 Kingdom's Role in Environmental Protection**

It is notable that the teachings of Islam highlights the importance of a healthy and clean environment; the Saudi government has stated that it intends to do the same as Islam mentions that under no circumstances can the environment and its cleanliness be compromised<sup>40</sup>. The government also makes efforts to consume resources in a way that is better for the environment (Ministry of Foreign Affairs, 2006). Article 33 of the constitution states that the government should make efforts to conserve the environment and avoid any pollution. Certain regulations issued by the government are designed to ensure the environment's protection. For this purpose, concerned ministries and departments are assigned the task of ensuring this. The government has also formulated policies to seek to ensure that all activities of the government that involve consuming resources do not degrade the environment in any way (Ministry of Foreign Affairs, 2006). It is also notable that the heritage will be protected to conserve resources to minimise the threat of extinction of plants, animal and birds that face danger (Ministry of Foreign Affairs, 2006). King Fahd, in 1986,

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<sup>40</sup> For more information see the Kamla et al. (2006) study as it provides a discussion about Islamic principles and the notion of accounting for the environment.

issued a Royal Decree which mentioned that an organisation will be established with responsibility for managing natural life. From its establishment until today, the institution is doing well in protecting nature and the environment by making efforts and thoroughly implementing the best policies for the Kingdom (Ministry of Foreign Affairs, 2006).

#### **4.11 Summary and Conclusion**

The purpose of this chapter, as mentioned earlier, is to provide basic background information on Saudi Arabia to help explain the country's environment and the way this affects accounting in the country. It has focused mainly on providing an overview of the country's history and geography, the political system, the legal system, culture, the economic system, the financial system, accounting regulations, and Saudi Arabia's role in protecting the environment.

As already stated, religion plays an important role in the legal, political, economic, and social affairs of the country because KSA is an Islamic country thus the politics of the country are in accordance with the Holy Quran and Sunnah (Islamic law) and decisions taken by the government are based on these principles. Unlike other developing countries, Saudi Arabia has never been subjected to foreign intervention or colonised. Despite changes over time, Islam has always been at the centre of the nation and acts as its main unifying force.

Saudi's economic development was greatly impacted by the oil related boom in the 1980s. Thus, focussing on the development of infrastructure and improving government services was evident in the government's first and subsequent five year development plans. The demand for an accounting and auditing profession increased as well as commercial regulation in Saudi Arabia due to the increase in business activity and the development of the state. The



government of Saudi Arabia has propagated many laws such as Income Tax, Al-Zakat Law, Companies Law, and the Accountants Law which have been revised and/or amended to suit the needs of the country.

This chapter provides an overview on Saudi Arabia as a background to the present study. The next chapter will discuss the theoretical framework adopted in this thesis which will help in interpreting the research findings.

## **Chapter 5 : Theoretical Framework**

## 5.1 Introduction

The previous chapter outlined the background of Saudi Arabia and included information about the political, cultural, social, legal, economic, and financial systems in the country. In addition, background information about the Saudi Stock Market was highlighted.

The purpose of the current chapter is to discuss stakeholder theory as a potential theoretical framework to interpret the research findings. This study seeks to investigate current CSD practices by Saudi listed companies and to examine different stakeholders' attitudes towards CSD information within companies' annual reports in Saudi Arabia. According to Gray et al. (1996), stakeholder theory is one of the system oriented theories that "focus on the role of information and disclosure (accounting and CSR) in the relationship(s) between organisations, the State, individuals and groups"<sup>41</sup> (p. 45).

The chapter is structured as follows: there is a brief discussion of theory including definitions, formulations and its role within social accounting research which is presented in Section 5.2. Section 5.3 outlines the concept of stakeholder theory and its historical development. Variants of stakeholder theory are presented in Section 5.4, while Section 5.5 addresses the relations between CSD issues and stakeholder theory. Section 5.6 presents the limitations and criticisms of stakeholder theory. Further, Section 5.7 discusses the adoption of stakeholder theory as the theoretical perspective for this study, and the chapter is summarised and concluded in Section 5.8.

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<sup>41</sup> CSR here in this Gray et al. (1996) quotation referred to corporate social reporting rather than corporate social responsibility (as it is used in this study).

## **5.2 The Notion of Theory**

This section highlights the meaning and the role of theory in relation to accounting research; furthermore it outlines the inductive and deductive approaches to theory formulation.

### **5.2.1 Definitions of Theory**

There is no single universally agreed definition of theory (Alamri, 2014; Alhassoon, 2015).

According to Deegan (2000), there are different perspectives on what constitutes a theory. A general definition of theory has been provided by Kerlinger (1986) who described it as:

"A set of interrelated constructs (concepts), definitions and propositions that present a systematic view of phenomena by specifying relations among variables, with the purpose of explaining and predicting the phenomena" (p. 9).

Whereas Sekaran (2003) defined theory as:

"A conceptual model of how one theorizes or makes logical sense of the relationships among the several factors that have been identified as important to the problem" (p. 87).

A theory can be considered as a method of looking at a specific phenomenon from a specific point of view with a particular set of boundaries; these boundaries are of significant importance to answer research questions through empirical observation. In other words it is a particular system used by researchers to form their research and help them to understand findings and outcomes (Mathews and Perera, 1996). According to Abdel-Khalik and Ajinkya (1979), a theoretical framework is required for every piece of academic research. Chambers (1955) argues that adopting a theory ensures that "our practice will be more confident, our conclusions more informed, our services to management or to our clients more valuable" (p. 18, as cited in Mardini, 2012). It has been argued that the level of our perceptions, beliefs and

cultures determines our understanding of the world around us, which in turn frames our paradigms and helps to build a theoretical vision of events (Abouzkeh, 2012).

A number of accounting researchers have defined theory based on its role within accounting research. One of these is Hendriksen (1982), who defined theory within an accounting context as:

"Logical reasoning in the form of a set of broad principles that (1) provide a general frame of reference by which accounting practice can be evaluated and (2) guide the development of new practices and procedures" (p. 1).

Gray et al. (2009) also contributed to the debate by defining theory as:

"...a conception of the relationship between things. It refers to a mental state or framework and, as a result, determines, inter alia, how we look at things, how we perceive things, what things we see as being joined to other things and what we see as 'good' and...'bad'" (p. 6).

### **5.2.2 Formulation of Theory**

According to Hendriksen (1982), a conflation of both deductive and inductive approaches formulates a theory. The inductive approach relies on the development of an idea or a theory based on observation, explanation, description, and prediction (Deegan and Unerman, 2006) of the phenomenon and then transferring it to principles (Mathews and Perera, 1996). It is focused on the assumption that the best accounting practice has survived (Deegan and Unerman, 2006). In contrast, the deductive approach is based on what the researcher believes should occur in particular circumstances (Deegan and Unerman, 2006). It provides a description of the accounting stages, such as building a basic understanding of the phenomenon, followed by linking it with the accounting framework and ending by translating this with observations (Mathews and Perera, 1996).

Based on these approaches, there are two types of accounting theory- positive theories and normative theories. A positive theory seeks to predict and explain particular phenomena (Deegan and Unerman, 2006), derived from an inductive approach and tends to be based on empirical observation. According to Watts and Zimmerman (1986) it is:

"...concerned with explaining [accounting] practice. It is designed to explain and predict which firms will and which firms will not use a particular [accounting method]...but it says nothing as to which method a firm should use" (p.7).

On the other hand, normative theory usually follows a deductive approach and is based on ways that practices and processes should be undertaken. Deegan and Unerman (2006) state that:

"Normative theory is generated as a result of the particular theorist applying some norms, standard or objective against which actual practice should strive to achieve" (p. 206).

Hendriksen (1982) believes that both inductive and deductive approaches contribute to theory formulation, and Mathews and Perera (1996) emphasised a clear distinction in their differing implications:

"Accounting propositions that result from inductive inference imply social accounting techniques with more or less high probability, whereas the accounting propositions that result from deductive inference lead to specific accounting techniques with certainty" (p. 56).

The role of theory in an accounting framework is highlighted in the next section.

### **5.2.3 Role of Theory in Accounting**

Riahi-Belkaoui (2004) outlines the objective of accounting theory as being "to provide a basis for the prediction and explanation of accounting behaviour and events" (p.108). The role of theory in a research study has four dimensions, as proposed by Riahi-Belkaoui (2004);

these are *description*, *delimitation*, *generation* and *integration*. The *descriptive* component deals with those concepts and principles which describe the phenomena under study in the best possible way. The *delimitation* part uses the most appropriate measures to explain the phenomena, thus supporting the descriptive part. The *generation* dimension is concerned with suggesting ideas, guesses and notions to the researcher and coming up with a testable hypothesis or research question(s). The last role of theory, *integration*, is responsible for putting forward a clear and consistent combination of the different concepts and relations involved in a theory (Riahi-Belkaoui, 2004). In addition, Llewelyn (2003) points out that social institutions, culture, class hierarchies, and distribution of power and resources are the four key elements of social life, and she believes that understanding them will create a meaning for such phenomena and will help to make changes in future.

The previous discussion provides a useful frame for understanding the role played by theory in accounting research. There is a mutual and strong relationship between theory and empirical research, particularly in the social sciences, as researchers generally use interpretation and description which require a specific approach and theory, as "doing sociological research...necessarily involves theory as well as the strategies and techniques of empirical investigation" (Bulmer, 1984, p. 3). Also May (2001) states that "... for social research to intellectually develop and to be of use in understanding or explaining the social world, we need theory and theory needs research" (pp. 31-32). Dillard (1991) suggests that accounting is seen as a human activity; therefore, it is classified as a social science. In addition Deegan (2000) argues:

"Because accounting is a human activity (you cannot have 'accounting' without accountants) theories of financial accounting (and there are many) will consider such things as people's behaviour and/or people's needs as regards financial accounting information, or the reasons why people within

organisations might elect to supply particular information to particular stakeholder groups" (p. 3).

According to Watts and Zimmerman (1986), accounting and auditing practices are explained by accounting theory and such an explanation is necessary for interpretation of empirical associations between variables. In other words, the research process, the outcomes of the study and the interpretation of the phenomena under investigation will be critically affected by the choice of the theoretical framework (Ijiri, 1983).

This thesis is primarily qualitative in its approach with some quantitative elements are included and, as the situation in the Kingdom of Saudi Arabia is still relatively underexplored in accounting research terms (Alhassoon, 2015), this study will be exploratory in nature. As the main field of this study is social accounting and reporting, stakeholder theory, which as previously discussed is one of the most commonly used frameworks in the field, has been identified as appropriate to the field of study. Stakeholder theory provides a suitable lens for exploring CSD practices in depth as is discussed and explained later in the chapter (see Section 5.5). The following sections will discuss stakeholder theory in more detail.

### **5.3 Stakeholder Theory Concept and Historical Development**

The term ‘stakeholder’ has been used by business leaders since the 1930s to differentiate between various groups and their duties that the company is responsible to, such as shareholders, employees and customers (Blowfield and Murray, 2008). According to Freeman (1984), the first use of the stakeholder concept was in 1963 in the management literature. Since that time, the concept of the ‘stakeholder’ has become rooted in management scholarship and in managers’ thinking as a result of Freeman (1984) publishing his book, *Strategic Management: A Stakeholder Approach*. The notion has gone on to become widely



embedded in the business world (Mitchell et al., 1997; Friedman and Miles, 2006). Freeman (1984) defines a stakeholder as "any group or individual who can affect or is affected by the achievement of the organisation's objectives" (p. 46). Alhassoon (2015) outlines the development of the stakeholder concept and theory as it is discussed in Friedman and Miles (2006). This is shown in Table 5.1.

**Table 5.1: Development and History of Stakeholder Concept and Theory**

Year	Author(s)	Summary
1932	Dodd	Identifying four major groups considered important by any firm's management (shareholders, employee, customers and general public)
1947	Johnson and Johnson	Customers, employees, managers and general public as major stakeholders
1950	Sears	Customers, employees, community and stockholders all are the most important groups for any firm
1963	Standard Research Institution (SRI)	Stakeholder those groups without whose support the organisation would cease to exist
1984	Freeman	Introduced stakeholder theory concept perspective of the organisation as strategic approach
1995	Donaldson and Preston	Viewing stakeholder theory on the basis of its descriptive accuracy, instrumental power and normative validity

**Source:** Alhassoon (2015, p. 123)<sup>42</sup>.

**Note:** This table summarises the history and development of stakeholder theory.

Mitchell et al. (1997) argue that the classic definition proposed by Freeman (1984) is certainly one of the broadest definitions in the literature, "for it leaves the notion of stake and the field of possible stakeholders unambiguously open to include virtually anyone" (p. 856). In this definition "the stakeholder concept represents a redefinition of all organisations: how they should be conceptualized and what they should be" (Friedman and Miles, 2006, p. 1). Freeman and Reed (1983) provide a broad definition of a stakeholder which is almost the same as Freeman's (1984) as they define the stakeholder as:

"Any identifiable group or individual who can affect the achievement of an organisation's objectives or who is affected by the achievement of an organisation's objectives" (p. 91).

<sup>42</sup> See Friedman and Miles (2006, p. 5 and p. 21) for more information.

In addition, Freeman and Reed (1983) also provide a narrow definition of a stakeholder as "any identifiable group or individual on which the organisation is dependent for its continued survival" (p. 91). Windsor (1992, as cited in Mitchell et al., 1997) argues that a broad or narrow view of a firm's stakeholder universe is considerably affected by different approaches to stakeholder theory. Freeman's (1984) diagram shows that an organisation has a range of stakeholders, and it needs to manage its relationship with many stakeholder groups that affect, or are affected by, its business decisions (Freeman, 1984), in order to maintain organisational sustainability (Friedman and Miles, 2006).

**Figure 5.1: Stakeholder View of Firm**



**Source:** Freeman (1984, p. 25).

The discussion regarding the kind of entity that a stakeholder can be reveals that all of the natural environment, people, organisations, groups and societies can potentially meet the

criterion for being regarded as a stakeholder (Mitchell et al., 1997). Companies' management should take into account the interest of all of these different groups in order to maintain its sustainability (Friedman and Miles, 2006).

Clarkson (1995) observes:

"Stakeholders are persons or groups that have, or claim, ownership, rights, or interests in a corporation and its activities, past, present, or future. Such claimed rights or interests are the result of transactions with, or actions taken by, the corporation, and may be legal or moral, individual or collective" (p. 106).

Clarkson (1995) divides stakeholders into two categories: primary stakeholders and secondary stakeholders. He considers a primary stakeholder as "one without whose continuing participation the corporation cannot survive as a going concern" (p. 106); in other words, they can have a direct affect on companies' activities and continuity. Such primary stakeholders include shareholders and investors, lenders, customers, employees, suppliers, government and community, as well as entities to whom taxes and other obligations may be due. Secondary stakeholders are defined as "those who influence or affect, or are influenced or affected by, the corporation, but they are not engaged in transactions with the corporation and are not essential for its survival" (p. 107). Environmentalists, consumer advocates, and the media are included within this group, as are also a wide range of special interest groups. Similarly, Freeman (1984) also divides stakeholders into two groups; primary and secondary. In addition, Keasey et al. (1997) emphasise the importance of long term relationships with stakeholders, as they state that:

"there should be some explicit recognition of the wellbeing of other groups having a long-term association with the firm – and therefore an interest, or 'stake', in its long-term success" (pp. 8-9).

As there are many stakeholder categories presented in the literature, different concepts of stakeholder theory are provided in the extant literature. Generally most of the literature concentrating on the idea of stakeholder theory suggests that organisations have different responsibilities towards different groups (Friedman and Miles, 2006). A number of stakeholder theory models have been created over time. Alam (2006) cites four models of stakeholder theory, presented in Table 5.2.

**Table 5.2: Stakeholder Theory Models**

Stakeholder Models		Features
Stakeholder Strategic Management Matrix Model	Freeman (1984)	Stakeholder management on the basis of a four cell Matrix. Stakeholders are prioritised on the basis of co-operation and their relative competitive threats.
Stakeholder- Agency Theory	Hill and Jones (1992)	Managers have agency responsibility to all major stakeholders, not just shareholders. Acknowledges power differences between different stakeholders.
Feminist Stakeholder Theory	Burton and Dunn (1996)	Stakeholder management on the basis of relationship, quality, care, and need.
Stakeholder Salience Model	Mitchell et al. (1997)	Stakeholder prioritisation on the basis of legitimacy, power and urgency.

**Source:** Alam (2006, p. 211).

## 5.4 Variants of Stakeholder Theory

Stakeholder theory explicitly acknowledges that an organisation has several stakeholders including, but not limited to, shareholders (Alam, 2006). The basic premise is that an organisation needs to manage its relationship with many stakeholder groups that affect or are affected by its business decisions (Freeman, 1984). Mitchell et al. (1997) state that:

"there is no agreement on what Freeman (1994) calls "the Principle of Who or What Really Counts". That is, who (or what) are the stakeholders of the firm? And to whom (or what) do managers pay attention?" (p. 853).

Accordingly, a number of variations in stakeholder theory have been introduced. For example, Freeman identifies three levels of stakeholder theory<sup>43</sup> (Freeman, 1984), Mitchell et

<sup>43</sup> Freeman (1984) described three levels of stakeholder theory which are: the rational level "who are the stakeholders in the organisation and what are the perceived stakes" (p. 53); the process level "processes used to

al. (1997) identify seven classes of stakeholder theory<sup>44</sup>, Donaldson and Preston (1995) discuss three variants of stakeholder theory (namely, the descriptive, the instrumental and the normative versions), while Deegan and Unerman (2006) suggest two variants of stakeholder theory (which are normative (ethical/ moral) and managerial (positive) variants).

Based on Donaldson and Preston's (1995) classification of stakeholder theory, the first version is when stakeholder theory is applied to describe, and in some cases to explain, certain corporate behaviours and characteristics of its relationship with stakeholders, this version is called descriptive or 'empirical'. The corporation is described as interacting with a wide range of groups with different interests and demands (Donaldson and Preston, 1995).

Based on Friedman and Miles (2006), the descriptive approach of stakeholder theory is:

"Concerned with how managers and stakeholders actually behave and how they view their actions and roles. These have been labelled as descriptive stakeholder theory" (p. 2).

The second version is termed instrumental, and is based around the interplay between the practices of an organisation's management and the achievement of companies' performance goals (e.g. profitability, revenue, and return on investments, stability, growth. etc.) (Donaldson and Preston, 1995). Friedman and Miles (2006) state that the instrumental approach is:

"Concerned with how managers should act if they are to further their own interests or what theorists conceive as the interests of the organisation, usually viewed as (long run) profit maximization or maximization of stockholder value. This strategic approach is generally based on what has been called instrumental stakeholder theory, which is the proposition that if

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either implicitly or explicitly manage the organisation's relationships with its stakeholders, and whether these processes "fit" with the rational "stakeholder map" of the organisation" (p. 53); and the transactional level "understand the set of transactions or bargains among the organisation and its stakeholders and deduce whether these negotiations "fit" with the stakeholder map and the organisational processes for stakeholders" (p. 53).

<sup>44</sup> Mitchell et al. (1997) identified seven classes of stakeholders namely; dependent, discretionary, dominant, dangerous, dormant, demanding and definitive. They argued that three relationship attributes: power, legitimacy and urgency can help to clarify the importance of each of the mentioned stakeholders.

managers treat stakeholders in line with the stakeholder concept, then the organisation will be more successful or more likely to be sustainable." (p. 2).

The last version is a normative version which looks at the way management should behave, and the view they should have of their organisation, based on ethical principles (Friedman and Miles, 2006). The interests of all stakeholder groups are given equal importance by this approach, which means that each stakeholder has a right to be considered for their own interests and not just because of their ability to harm or enhance shareholder value.

According to Deegan and Unerman's (2006) classification, the normative variant of stakeholder theory is based on the premise that all stakeholders have an equal right to be treated fairly by an organisation. The issue of the relative power of stakeholders is not considered to be directly relevant. The organisation's responsibilities to the stakeholder are determined by the effects that an organisation leaves on the lives of the stakeholder, rather than the extent of a stakeholder's economic power upon the organisation. As Hasnas (1998) states:

"When viewed as a normative (ethical) theory, the stakeholder theory asserts that, regardless of whether stakeholder management leads to improved financial performance, managers should manage the business for the benefit of all stakeholders. It views the firm not as a mechanism for increasing the stakeholders' financial returns, but as a vehicle for coordinating stakeholder interests, and sees management as having a fiduciary relationship not only to the stockholders, but to all stakeholders. According to the normative stakeholder theory, management must give equal consideration to the interests of all stakeholders and, when these interests conflict, manage the business so as to attain the optimal balance among them. This of course implies that there will be times when management is obliged to at least partially sacrifice the interests of the stockholders to those of the other stakeholders. Hence, in its normative

forms, the stakeholder theory does imply that businesses have true social responsibilities<sup>45</sup>" (pp. 16-17).

This perspective is related to the manner in which the researcher believes that organisations should act, which may often be opposed to the way they actually act. This should be considered when opting for the normative perspective of the behaviour that should be adopted by organisations towards their stakeholders (Deegan and Unerman, 2006). As Donaldson and Preston (1995) state:

"In normative uses, the correspondence between the theory and the observed facts of corporate life is not a significant issue, nor is the association between stakeholder management and conventional performance measures a critical test. Instead, a normative theory attempts to interpret the function of, and offer guidance about, the investor-owned corporation on the basis of some underlying moral or philosophical principles" (p. 72).

Gray et al. (1996, 2014) argued that the normative variant of stakeholder theory is directly related to the accountability model which is based on the duty to undertake certain actions, and to account for those actions:

"...the organisation-stakeholder interplay can be seen as a socially grounded relationship which involves responsibility and accountability. Thus, the organisation owes accountability to all its stakeholders. The nature of that accountability is determined by the relationship(s) of that stakeholder with the organisation" (Gray et al., 1996, p. 45).

Gray et al. (1996, 2014) argued that a company should be bound to accept its accountability towards society and all the relevant stakeholders lying within the framework of the implied social contract (which lays down the rights of every stakeholder capable of influencing or being influenced by organisational activities). These rights can be expressed in the form of fairness and justice in terms of getting benefits as well as being informed about the impact of

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<sup>45</sup> This notion of fiduciary responsibility to all is not necessarily common to all studies where other forms of responsibility are recognised.

the organisation on their lives (Gray et al., 1996). This, it can be argued, is the way an organisation ought to behave towards stakeholders, which requires changes in disclosure in accordance with societal changes. This assumption means that the organisation has a community licence to operate (Gray et al., 1996). Hence, information should be provided to society by the organisations themselves, to keep the society informed of their activities based on moral and philosophical principles, which is in line with the normative version of stakeholder theory (Mellahi and Wood, 2003).

On the other hand, the managerial perspective of stakeholder theory focuses on management's attention to the expectations of specific stakeholders (Deegan and Unerman, 2006), which only focuses on narrow definitions of stakeholders without taking into account others' needs (Gray et al., 1996). This is a more organisation-centred approach according to Gray et al. (1996):

"Here, the stakeholders are identified by the organisation of concern...by reference to the extent to which the organisation believes the interplay with each group needs to be managed in order to further the interests of the organisation. (The interest of the organisation need not be restricted to conventional profit-seeking assumptions.) The more important the stakeholder to the organisation, the more effort will be exerted in managing the relationship" (p.46).

Thus, according to Bailey et al. (2000), the operations and the disclosure policies of organisations will be affected by the relative importance accorded to various stakeholders. Only the powerful stakeholders will get the attention of the organisation, instead of equal attention being given to all of the stakeholders (Bailey et al., 2000), and the success of the organisation depends on fulfilling the demands of the most powerful stakeholder groups (Deegan and Unerman, 2006). If a particular stakeholder class is deemed important, then the company will invest more effort in the management of the relationship with them (Mashat,



2005). As the management's self-perceptions of the importance of specific stakeholders is the basis for the accountability of the model, most of the information needs of the less powerful stakeholders and individuals will not be considered<sup>46</sup> (Gray et al., 1996).

This concurs with Wallace (1995), who argues that "the higher the group in the stakeholder hierarchy, the more clout they have and the more complex their requirements will be" (p. 9). In this respect, Ullmann (1985) suggests that an organisation must successfully manage demands from relevant interest groups of stakeholders in order to survive and be efficient. Effectiveness in managing demands is linked to the success of an organisation (Ullmann, 1985).

Deegan and Unerman (2006) emphasise that the managerial variant of stakeholder theory is generally more tested than the normative variant in empirical research. Generally, the relationship between an organisation and its stakeholders might be highly affected by the disclosure of financial and accounting information in addition to social disclosure (Gray et al., 1996; Deegan and Unerman, 2006). In this research, the classification of stakeholder theory variants (moral and managerial variants), proposed by Deegan and Unerman (2006), is adopted. The next section discusses the relationship between stakeholder theory and CSD.

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<sup>46</sup> As mentioned before there are two types of accounting theory: positive theories which seek to predict and explain particular phenomena, in other words it is based on what does actually happen, and normative theory which is based on how the practices and the processes should be undertaken or what should happen (Deegan and Unerman, 2006).

Freeman (1984) stated that an organisation needs to effectively manage its relationship with several groups of stakeholders that are liable to be influenced or that exert influence on its corporate decisions in order to achieve the company's goal (whatever this goal is - though typically it is assumed to be maximising shareholder wealth). Accordingly, it could be argued that, based on the accounting theory's types, the managerial version of stakeholder theory could itself be described as normative, in that it is an approach that Freeman (1984) recommended that managers should follow in order to help achieve the firm's objective. This version could even be described as "ethical" if the objective chosen (e.g. maximising shareholders wealth) was deemed to be the best way of maximising social welfare (essentially the Milton Friedman argument (1979)). There is however evidence to reject this argument since there is evidence that the Anglo-American economies (i.e. those which typically have maximising shareholder wealth as the traditional corporate objective) have poorer social indicators than other developed economies (see, for example, Collison et al., 2012).

## 5.5 Stakeholder Theory and CSD

This section highlights the relevance of stakeholder theory to an understanding of CSD, as well as presenting CSD studies, conducted in developed and developing countries, where stakeholder theory has informed the research.

Stakeholder theory is well-established in the accounting and management literature (see, for example, Ullmann, 1985; Roberts, 1992; Clarkson, 1995). It is frequently employed as a theoretical framework in wide areas of CSR and CSD studies and has been described as "one of the most widely-employed theories in the social accounting literature" (Gray et al., 2014, p. 85). The analysis is based on the definition of CSD<sup>47</sup>, which places stakeholders and their informational needs at the centre of the analysis (see, for example, Gray et al., 1996).

Social disclosure can be used by companies to simply manage the various expectations of their stakeholders according to stakeholder theory (Gray et al., 1996; Deegan and Unerman, 2006). Gray et al. (1995a) perceive CSD from a stakeholder's perspective "as part of the dialogue between the company and its stakeholders" (p. 53). Gray et al. (1996) state that companies should provide CSR information to all their stakeholders to demonstrate their responsibility and accountability.

Stakeholder theory provides interpretations for determining which stakeholder is to be ranked as powerful regarding voluntary CSD; accordingly, organisations will prioritise their concerns (Gray et al., 1996). The rights of the "less important" stakeholders are disregarded in this concept and the organisation can be exempted from this kind of reporting (Dusuki, 2005). Much of CSD will be left as ex gratia. It is the choice of the key decision-makers to

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<sup>47</sup> Gray et al. (1996, p.3) defined CSD as "the process of communicating the social and environmental effects of organisations' economic actions to particular interest groups within society and to society at large" (p.3).

decide what information needs to be imparted and when (Mashat, 2005). Several CSD studies in developing and developed countries are outlined.

Roberts (1992) conducted an empirical study to investigate the ability of stakeholder theory to explain CSD practices. He used data from the 1986 Council on Economic Priorities (CEP) report in evaluating levels of CSD. The CEP studies focused on large Fortune 500 companies operating in seven industries<sup>48</sup>. The findings were consistent with the managerial version of stakeholder theory, where companies were only fulfilling the informational needs of the important stakeholders rather than fulfilling the informational needs of all stakeholders when undertaking CSD. Roberts added that (disclosure) activities were designed to gain support and approval of these stakeholders to ensure the survival of the company. The number, type and nature of the stakeholders determined how the firms adapted their corporate disclosure practices (Roberts, 1992).

Neu et al. (1998) examined the concerns of particular stakeholder groups and the correlation of the increase and decrease in environmental disclosure. They reviewed the annual reports (from 1982 to 1991) of Canadian public companies operating in environmental industries<sup>49</sup>. The results revealed that particular stakeholder groups were more effective than others in demanding CSD; the level of environmental disclosure and the communication strategies adopted by an organisation were linked to stakeholder power, as companies were responding to the demands of financial stakeholders and government regulators rather than fulfilling the needs of the environmentalists concerned. They stated that:

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<sup>48</sup> These industries are the automobile industry, the food industry, the health and personal care industry, the airline industry, the oil industry, the hotel industry, and the appliance and household products industry. The results of CEP study were published in a book entitled *Rating America's Corporate Conscience* (1986) (Roberts, 1992).

<sup>49</sup> These industries are the mineral extraction industry, the forestry industry, the oil and gas industry, and the chemical industry.

"the relationship between environmental disclosures and an organisation's methods of operations and output will always be partial in that these disclosures attempt to emphasize environmental successes, re-frame challenges raised by important publics and ignore challenges raised by marginal publics" (Neu et al., 1998, p. 274).

Sweeney and Coughlan (2008) empirically examined the way companies are taking a focused stakeholder view of CSR rather than a wider view. Their study considered six industries<sup>50</sup>, and used content analysis to analyse the annual reports and CSR reports of 28 FTSE4Good Global, UK, US, and European Indices taken at December 2004. The results showed that companies, operating in different economic industries, report CSR differently in a way that is consistent with the power of stakeholders "giving evidence for CSR reporting as another tool in the marketing communicators toolbox" (p. 113).

A further study by Prado-Lorenzo et al. (2009) examined the effect that shareholder power and dispersed ownership structure have on CSD in 99 nonfinancial Spanish firms' annual reports using stakeholder theory. They revealed that the provision of a CSR report by a firm is affected by both the power of certain stakeholders (government and creditors) and the strategic posture of the firm, which is consistent with Ullman's model<sup>51</sup>.

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<sup>50</sup> These industries are financial services, pharmaceutical (medical and health and beauty), telecommunications, automobile, oil and gas, and retail industries.

<sup>51</sup> Based on Freeman's (1984) strategic management view, Ullmann (1985) presented a three-dimensional theoretical model of company social activity that can explain CSD based on stakeholder theory based around stakeholder power, strategic posture and economic performance respectively. First, stakeholder power details theoretical motivations; i.e. any business entity will be most likely to satisfy the needs and demands of those stakeholders who have access, command and control over the resources. These stakeholders are critical to all organisations. Second, strategic posture describes the type of reaction of an organisation's significant decision-makers towards social demand. Managers might tend to create an active posture, which reflects the fact that organisations seek to create a favourable relationship with significant stakeholders in order to achieve an optimum level of interdependence. Finally, economic performance plays a significant role in two ways: (i) economic performance not only regulates the response from the key decision-makers but it also defines a relative weighting towards social demand. Economic performance would take priority over social demands in a case of low profitability and high debt situations; and (ii) economic performance is financially linked to the capacity of undertaking costly programmes that are related to social demands.

Van der Laan Smith et al. (2005) explored the differences in CSD between Norway/Denmark and the USA, using stakeholder theory. They argued that the extent and quality of CSD in annual reports will be affected by the manner in which the role of a corporation and its stakeholders is defined in a society. They used content analysis to analyse the annual reports, for 1998 and 1999, of 32 Norwegian/Danish companies and 26 US companies operating in the electric power generation industry. Their findings support the stakeholder explanation for observed international differences in CSD. The findings revealed a relationship between stakeholder theory and CSD: as large Norwegian/Danish companies have a better quality and higher level of CSD than US companies, while small and medium companies did not have the same relationship.

"The results of our study have implications for parties concerned with diversity in CSD internationally. For organisations (e.g., EU, IASB, UN) developing legislation aimed at harmonizing CSD across countries, our results suggest that it may be important to consider the manner in which the role of a corporation and its stakeholders is defined in different societies. For corporations expanding globally, it is important that they understand the expectations of the society in which they are operating in order to communicate with the stakeholder groups that are important to the society. Our results suggest that companies will face differential CSD pressures in different countries and will have to adjust their disclosure strategy accordingly" (p. 147)

Another study conducted by Orij (2010) supports the findings of Van der Laan Smith et al. (2005). Orij investigated whether there is a relationship between the level of CSD and national culture. He applied a number of cultural measures to 600 large companies, from 22 different countries, operating in ten industrial sectors. He concluded that:

"The results are consistent with the associations suggested by stakeholder theory and a country-specific stakeholder orientation. It is concluded that CSD levels are likely to be influenced by national cultures" (p. 868).

Several studies have made a link between CSD practices and stakeholders within emerging markets, through the lens of stakeholder theory. For example, Islam and Deegan (2008) explained CSD practices of a major garment export organisation in Bangladesh and analysed the findings from different theoretical frameworks including stakeholder theory, legitimacy theory, and institutional theory. They used both interviews and content analysis to gather empirical data. They conducted 12 in-depth interviews with senior executives from the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) to determine the pressures they have faced in terms of their social and environmental performance. Further, they reviewed the annual reports of BGMEA for 19 years (from 1987 to 2005) to assess whether information disclosed in the reports reflected or responded to the pressures or issues raised by the managers. They found that, since the early 1990s, particular stakeholder groups have put pressure on the clothing industry in terms of its social performance. This kind of pressure, which is also related to global community expectations, has played an important role in pushing the industry towards more social policies and disclosures. In regards to stakeholder theory, the findings suggested that:

"An organisation will respond to the concerns and expectations of powerful stakeholders, and some of the response will be in the form of strategic disclosures. Consistent with this perspective, BGMEA noted that its operating and disclosure policies reacted to the expectations of multinational buying corporations – the group deemed to be the most powerful stakeholder" (p. 870).

A further study, conducted by Belal and Roberts (2010), employed stakeholder theory and CSD to examine the perceptions of different groups of non-managerial stakeholders, in the context of Bangladesh, based on the idea of giving voice to non-managerial stakeholder groups in the social reporting process. They conducted a series of semi-structured interviews with 11 participants. The respondents indicated that the pressure from international markets is

the main factor leading to CSD practices and motivation, and that it drives cosmetic responses. The participants also mentioned that adopting strict CSD standards may lead to increased corruption and other negative consequences based on the economic, social and political situation in the country, while "some of the interviewees sharply criticized the current process of imposing social accounting codes/standards on developing countries which fail to consider the important local socio-economic context" (p. 311). The findings revealed overwhelming support for mandatory externally verified CSD, based on the principles of full disclosure/completeness, and that it is important to rely on broader principles of transparency and stakeholder accountability, and the principle of peoples' right to know.

Uwuigbe and Jimoh (2012) examined the level of corporate environmental reporting practices using stakeholder theory, in five selected manufacturing companies listed on the Nigerian Stock Exchange. The study used content analysis to analyse the sampled annual reports. The findings indicated that information provided by the majority of the sample was concerned with employees and community involvement, products and customer categories, and little information was quantifiable. In addition, they revealed that "corporate environmental disclosure in Nigeria is still very ad-hoc, general and self-laudatory in nature" (p. 79). Such disclosures present Nigerian companies' practices as a method to improve their corporate image and to be seen as responsible corporate citizens. Furthermore, the results of the content analysis revealed no differences in such disclosure based on different economic sectors, and no specific pattern of disclosure for any company in the sample. The authors stated that relying on voluntary disclosure, without setting a regulatory form, "is unlikely to result in either a high quality of disclosure or sufficient levels of disclosure" (p. 80).

Another study conducted by Suttipun and Stanton (2012), within the context of Thailand, empirically investigated the reasons for reporting and not reporting environmental disclosure and to see if voluntary environmental reporting practices can be explained through stakeholder theory. They conducted a questionnaire survey to collect data from 311 accountants on the Continuing Professional Accountant Development Training Program. Their findings demonstrated that legal obligations, investors' right to information, increasing competitive advantage and customer loyalty, and customer concern were seen as the most important reasons behind disclosing environmental information. While the most important reasons behind not disclosing such information were perceived to be that "companies had no environmental impact, and that there were no environmental regulations or standards in Thailand" (p. 73). The results indicated that environmental disclosure in Thailand will be adopted if it becomes obligatory. However, the authors stated that stakeholder theory can be used to explain environmental disclosure in developing and developed countries.

Akinpelu et al. (2013) investigated various types of CSD information issued by Nigerian commercial banks, in addition to investigating the factors that determine the level of disclosure in their annual reports and accounts. They used content analysis to analyse the annual reports of 13 commercial banks operating in Nigeria in 2009. Most of the CSD information was related to human resources and community involvement categories, while the minority of information related to environmental, product quality and customer relation categories. The study found that one of the main factors affecting positively and statistically significantly, the level of CSD in the annual report, is total assets. It also found that both the number of branches and gross earnings of an entity had a positive correlation with the CSD level; however this was not statistically significant. Akinpelu et al. indicated that Nigerian



commercial banks engaged in CSR activities in order to satisfy stakeholder interests, especially those interests that relate to employees and community, which arguably corresponds to stakeholder theory as it relates to CSR.

Within an Arabic context, Bayoud et al. (2012a) explored the relationship between CSD and corporate reputation in Libya. They undertook interviews, a questionnaire survey, and content analysis in their investigations. Thirty-one financial managers and information managers were interviewed and shared their viewpoints, and a questionnaire was designed to collect data from 149 managers and employees. Bayoud et al. used content analysis to analyse 110 annual reports of 40 Libyan companies covering three years, to measure the level of CSD. The outcomes showed that CSD is viewed as the most important practice to strengthen company reputation with stakeholders; CSD had an impact on the internal and external viewpoints of reputation. Another study conducted by the same researchers, Bayoud et al. (2012b), investigated factors which impact on the level of CSD in Libyan companies. They empirically investigated whether company age, industry type, and company size have a potential influence on the levels of CSD in Libyan companies' annual reports. The study sample contained the annual reports of 40 Libyan companies from 2007 to 2009; moreover, 31 information managers and financial managers were interviewed to give their views regarding the determinants of CSD. The researchers applied content analysis to analyse the sampled annual reports, and the outcomes suggested a positive relationship between industry type and company age with the level of CSD. The authors indicate that their findings support the use of stakeholder theory, as this theory is appropriate to determine the CSD practices of Libyan companies, because it reflects those variables that are associated with the social aspects of stakeholder concern.

The potential of stakeholder theory to shed light on CSD practices has been identified by a number of studies to date, nevertheless some limitations also have been discussed in the literature; the next section focuses on these.

## **5.6 Limitations of Stakeholder Theory**

Stakeholder theory has received a number of criticisms which are highlighted in this section. It seems that the normative approach of the theory has gained the majority of these criticisms (Handy, 1991; Argenti, 1993; Gray et al., 1996; Gioia, 1999; Key, 1999; Hendry, 2001; Jonker and Foster, 2002; Deegan, 2006; Henriques and Sadorsky, 2008).

Argenti (1993) states that organisations that try to be everything to all people and to provide advantages to all stakeholders are unmanageable and face huge competitive problems. Furthermore, stakeholder theory may be more applicable to a multinational organisation, due to the numerous stakeholder groups that they may need to take into account (Argenti, 1993). Handy (1991, as cited in Ambler and Wilson, 1995) considers what can help managers in deciding what to do, when different groups of stakeholders do not have the same business goals. For example, some stakeholders may want a company to be taken over, some may want it to grow, some may want it to fail, and some may want it to maintain its present size. Thus, adopting multi-fiduciary policies by managers may cause frustration or at least confusion regarding the purposes of a company.

Key (1999) claims that stakeholder theory provides inaccurate assessment of the environment, with inadequate explanation of the organisation's behaviour within its environment, insufficient attention to the system within which the business operates and the level of analysis within the system, in addition to incomplete linkage of internal and external variables.

Jonker and Foster (2002) argue that the way firms interact with stakeholders is not provided in detail through stakeholder theory. Jonker and Foster also argue that the stakeholder theory framework, provided by Mitchell et al. (1997), distracts managers as:

"they identified a range of attributes but in so doing they have demonstrated that these are variously attributes of the stake, the relationship and the stakeholder. Moreover, by focussing on salience they may be inadvertently distracting management activity away from the engagement with the external world that they face. The original purpose of stakeholder theory was to encourage managers to engage with the external world in determining a strategic direction and how it could be implemented successfully. Mitchell, Agle et al. (1997)'s work could make this engagement very selective" (p. 189).

Hendry (2001) critiques the normative variant of stakeholder theory as "the proponents of normative stakeholder theory have consistently pitched their sights either too high or too low to engage effectively with the rival shareholder theory" (p. 160). Also Gioia (1999) states that:

"The normative approach too often has seemed to be represented by articulate voices shouting from the sidelines that organisational decision makers should do the right thing. That stance has won disappointingly less influence in the community of managerial practice than we might like... Managers simply do not find them credible because they do not adequately represent the complex social, economic, and organisational realities managers face" (p.228).

In relating to CSD, Gray et al. (1996) argue that the normative variant of stakeholder theory, which is based on the idea of accountability, does not have enough power to explain CSD activities undertaken by organisations and, as Deegan (2006) added, it does not help in predicting the managerial behaviour in terms of CSD practices. Henriques and Sadorsky (2008) state that both primary and secondary stakeholders have the power to encourage responsible environmental performance by organisations which "may lead to improved

environmental and economic performance via reduced emissions and increased benefits (tangible and intangible), respectively" (p. 147).

The normative approach attracted the majority of criticisms of stakeholder theory. Nevertheless, Donaldson and Preston (1995), who mentioned three variants of the theory (the descriptive, the instrumental and the normative versions), argue that an organisation's stakeholders can be identified based on different approaches such as descriptive accuracy, instrumental power and normative validity. Moreover, Mitchell et al. (1997) provide a framework in order to identify the stakeholders of an organisation; however, the present study is focusing on normative and managerial approaches to stakeholder theory only. The next section explains the adoption of the theory in the present study.

### **5.7 Stakeholder Theory in the Present Study**

Despite its limitations discussed above, stakeholder theory is useful as according to Gray et al. (1997) "it defines the influencing/influenced groups for us and explicitly defines what accountability the organisation itself is willing to recognise and discharge" (pp. 333-334). This section outlines the reasons behind choosing stakeholder theory as a suitable theoretical framework for this study. Stakeholder theory is believed to provide an appropriate framework in research that deals with CSR and CSD issues. Theoretically, it explores the relationships between an organisation and its stakeholder groups based on both the normative variant and on the managerial variant of the theory. Roberts (1992) states that:

"Stakeholder theory provides an avenue in which to integrate the hypotheses regarding corporate social responsibility activities...into a model of corporate social responsibility disclosure" (p. 596). "The empirical results support a stakeholder theory approach to analysing corporate social decisions" (p. 610).

This research aims to investigate current CSD practices by Saudi listed companies and to investigate different stakeholder groups' perspectives towards CSD practices and related issues in Saudi Arabia. The empirical work for this study is based on the content analysis of listed companies' annual reports for 2012 and separate CSR reports provided by Saudi listed companies operating in all economic industries, looking for CSD information. In addition, a questionnaire survey is conducted to generate data from different stakeholder groups towards CSR and disclosure issues in Saudi Arabia.

Hence, stakeholder theory is considered an appropriate framework to meet the objectives of this study. Adopting stakeholder theory, within the Saudi context, is helpful in considering whether, and if so, the ways companies' management teams are responding in relation to CSD. Evidence is sought as to whether any such response is, or is not, particularly focused on more powerful stakeholders. This helps to determine the variant or variants of stakeholder theory which has described the behaviour adopted by companies, through determining the stakeholder groups that have actually been considered. Moreover, the stakeholder framework is employed to interpret various stakeholders' perspectives (managers, employees, shareholders/investors, the CMA, and academics) regarding different CSR and CSD matters.

A stakeholder theory framework helps provide the researcher with knowledge and awareness of CSD practices and stakeholders' opinions within the Saudi context, which aids explanation of current practice and to identify and justify the assertion that Saudi companies should engage more with CSD practices.

One can argue that stakeholder theory is a Western theory that is usually applied within a country, where specific factors exist to set the basic and necessary grounds to adopt such a

theory; for example, pressure groups and individuals which bear an impact on the organisation and constitution. According to Hofstede (1983), using a theory that originated in a cultural, economic and political setting to explain disclosure practices in a country with a different political and economic setting is questionable. Thus how such a theory could be applied in studies is investigated by targeting a country such as Saudi Arabia which has different situations than those of a developed country and of some other developing countries.

In defence of using stakeholder theory in this research, it is necessary to explain the whole picture about the situation in Saudi Arabia that is related to CSD. Saudi Arabia is a developing country and the political situation is different from the one in Western countries. The country today is the largest free market economy in the Middle East and North Africa (MENA) with a share of 25% of the total Arab GDP. There are many international companies that are operating in Saudi Arabia or have branches there, which play a part in bringing to the country some Western business behaviours such as employees' rights. In addition, the country has witnessed a large level of scholarships, over the last decade, provided to Saudi students to study in developed countries, which has led to a transfer of Western knowledge, practices, and attitudes in different scientific fields, including the accounting and finance field (see, for example, Al-Abdullatif, 2007; Falgi, 2009; Alamri, 2014; Alomar, 2014; Alsahlawi, 2014; Al-Habshan, 2015). CSD has become one of the major issues in accounting in developed countries, and there is an awareness of this phenomenon among these countries. Some studies have been conducted in these countries, with a limited number focusing on Saudi Arabian CSR and disclosure matters (see, for example, Nourafchan, 2011; Ali and Al-

Aali, 2012; Mandurah et al., 2012; Razak, 2015). Thus, awareness about this issue remains limited.

Recently, however, scholars' interest, awareness and appreciation of the importance allocated to CSR and disclosure issues are increasing in Saudi Arabia as more research is being conducted (this research for example). In addition, the number of conferences and seminars that are devoted to this issue are also increasing (for example, the sixth regional conference for the third sector institutions (2009), and, the 38 annual ARNOVA conference "Charity work in the institutions of civil society" (2009); the second Arab forum of corporate social responsibility "Arab index of social responsibility" (2010), the major conference of social responsibility of companies in the Kingdom of Saudi Arabia (2014)). The level of importance that the government ascribes towards the issue is increasing as they sponsor the majority of CSR and disclosure, and sustainability events in the country (e.g. the major conference of CSR in Saudi Arabia that was sponsored by the Jeddah Chamber of Commerce and Industry). They have also established competitions between companies about their social and environmental responsibilities and provide awards for the winning companies to encourage socially responsible behaviour by business (e.g. the annual CSR award provided by the Saudi Arabian General Investment Authority 'SAGIA'). The awareness of the issue among different stakeholder groups in Saudi Arabia is also increasing, for example, managers show a reasonable level of awareness towards CSR and disclosure and have positive attitudes towards it (Mandurah et al., 2012); with customers asking for better services and products (Ministry of Commerce and Industry, 2015). All these reasons and more provide a strong basis for applying stakeholder theory in this research.

Based on the above discussion, the stakeholder framework is well suited for studies that are trying to explore, within a context (in this case a Saudi Arabian context), the nature of CSD information included in annual reports to the respective stakeholders and their position on such disclosures and their adequacy. The next section summarises and concludes the chapter.

## **5.8 Summary and Conclusion**

This chapter explains the nature of theory and its role within social accounting research through highlighting the formulation of theory which includes deductive and inductive approaches. The chapter has focused mainly on stakeholder theory by providing a context within which to understand the stakeholder framework and its relationships. It also highlights the historical development of the theory, and the variants of the theory. Also the relationship between CSD and stakeholder theory has been discussed. In addition, the chapter provides justification for choosing the stakeholder conceptual framework to interpret the results of the current study. The limitations and criticisms of stakeholder theory have also been outlined.

Stakeholder theory has been chosen because the main focus of this research is to investigate the current CSD practices of Saudi listed companies and to investigate different stakeholders' perceptions regarding CSD issues in the country. The theory, by providing an explanation of the observation, provides a link between the research questions and the empirical observation (Mathews and Perera, 1996). The methodology and methods adopted in this research are discussed in the next chapter.



## **Chapter 6 : Methodology and Methods**

## **6.1 Introduction**

After outlining the context for this study in Chapter 1, Chapters 2 and 3 provided an overview of the literature on CSD and related areas while Chapter 4 focused on providing a description of the general environment in Saudi Arabia. Chapter 5 then detailed the theoretical approach used in this study. This chapter builds on the framework outlined so far and addresses the methodology used in this thesis and the methods employed in collecting the primary research data.

The methodological approach of any research thesis is one of the main areas that need to be addressed. The selection of the methodology in any thesis depends on the objective of the research, the conceptual framework underpinning the phenomena which is being investigated and an exploration of the opinions and perceptions of the researcher in this regard (Tomkins and Groves, 1983). Therefore, by selecting the appropriate methods, a research study should be able to collect and analyse the objective under consideration and answer the research questions posed (Denzin and Lincoln, 2005). A main crux of this chapter is to outline the research paradigm in which the current research is located. Also, the methodology selection made by the researcher is discussed in detail, as well an outline of the methods employed which helps the researcher to answer the research questions. Regarding the research methodology approach, Section 6.2 explains the research paradigm and discusses the nature of social science as well as assumptions about the nature of society. A questionnaire survey and content analysis are used as qualitative and quantitative research methods in this thesis; these will be discussed in Section 6.3, while Section 6.4 summarises and concludes the chapter.

## 6.2 Research Methodology

Burrell and Morgan's (1979) discussion of assumptions about the nature of social science are presented in the following section. In addition, differing assumptions relating to the nature of society are discussed. Moreover, Burrell and Morgan's (1979) framework outlined four paradigms which are widely used in social science research; this research study will be presented in the context of the paradigm acts as a platform for this thesis.

### 6.2.1 Assumptions about the Nature of Social Science

Burrell and Morgan (1979) argue that the nature of social science can usefully be considered by reference to a subjective and objective dimension (See Figure 6.1). They explain four assumptions which are linked with the investigation into social sciences and reflect the notions of ontology, epistemology, human nature, and methodology. These subsections are considered below.

**Table 6.1: Burrell and Morgan's (1979) Subjectivist and Objectivist Approaches and Assumptions about the Nature of Social Science Research**

Subjectivist approach	Assumptions	Objectivist approach
Nominalism	Ontology	Realism
Anti-positivism	Epistemology	Positivism
Voluntarism	Human nature	Determinism
Ideographic	Methodology	Nomothetic

**Note:** This table shows the subjective-objective dimension and key assumptions (Burrell and Morgan, 1979).

Burrell and Morgan (1979) argue that social science focuses on notions such as ontology, epistemology, human nature, and methodology. The objective perspective consists of realism, positivism, determinism and the nomothetic approach whereas, the subjective perspective consists of the nominalist, anti-positivist, voluntarist and ideographic perceptions.

From an objective perspective, reality does not depend on any individual's perspectives and opinion but is grounded in realism and is considered concrete (Burrell and Morgan, 1979; Saunders et al., 2012). This contrasts with a subjective approach, in which it can be viewed as an outcome of decisions taken by social actors; researchers adopting this approach are focusing on the fact that individuals have the liberty and independence to make their own decisions and can bring changes in their ways of life based upon particular situations and circumstances (Burrell and Morgan, 1979).

In discussing matters relating to a researcher's position on the subjectivist/objectivist continuum, Burrell and Morgan (1979) outline a number of assumptions concerning ontology, epistemology, human nature and methodology. These will now be discussed in greater detail.

Ontology<sup>52</sup> has been defined by Burrell and Morgan (1979) as:

"The assumptions which concern the very essence of the phenomena under investigation" (p.1).

The focus is on "whether reality is a given 'out there' in the world, or the product of one's mind" (Burrell and Morgan, 1979, p. 1). Accordingly, ontology can be divided into two positions, realism and nominalism. Realist ontology argues that people do possess autonomy and that their senses depict a realist view of the world which is correct and true (Saunders et al., 2012). Moreover, reality also exists beyond an individual's thoughts and ideas and it provides an objective or unbiased point of view of various situations of the world. But reality is intangible and difficult to assume, because it is autonomous in nature without any interference by an individual (Burrell and Morgan, 1979). On the other hand, a nominalist

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<sup>52</sup> Gray (2004) distinguished between ontology and epistemology and stated that ontology concentrates on understanding 'what is', while epistemology seeks an understanding of 'what it means to know'.

position depicts the outside social world as comprising the concepts, names, and labels used in supporting the structure in actuality. It assumes that reality is a relative concept, the product of an individual's awareness (Burrell and Morgan, 1979).

Epistemology focuses on knowledge generation (Burrell and Morgan, 1979). Specifically they identified epistemology as:

"Assumptions about the grounds of knowledge about how one might begin to understand the world and communicate this as knowledge to fellow human beings...what forms of knowledge can be obtained and how one can sort out what is to be regarded as 'true' from what is to be regarded as 'false'" (p. 1).

There are two extremes with regard to epistemology, positivism and anti-positivism (Burrell and Morgan, 1979). Burrell and Morgan (1979) argue that from a positivist viewpoint, knowledge exists independently of anyone's awareness and realisation, and that it can be planned and studied without reference to subjective assumptions. The focus is on trying "to explain and predict what happens in the social world by searching for regularities and causal relationships between its constituent elements" (Burrell and Morgan, 1979, p. 5). At the other end of this dimension Burrell and Morgan (1979) argue that, typically in anti-positive research, the focus is not on proving or disproving laws or principles, as is the case in science. The use of knowledge and the consideration that something is knowledge varies according to the person and according to the purpose of the research. An anti-positivist viewpoint says that knowledge is achieved subjectively: "anti-positivists tend to reject the notion that science can generate objective knowledge of any kind" (Burrell and Morgan, 1979, p. 5).

According to Burrell and Morgan (1979), as human life is the subject and object of inquiry, all social scientists must take into account assumptions about human nature. This assumption

is related to the relationships between human beings and their environment. According to Burrell and Morgan (1979), voluntarism and determinism are two extreme perspectives pertaining to the activities of humans in their social life. A deterministic view of human nature is based on the assumption that the environment and the condition in which a person is located determine a person's activities and him/her in detail (Burrell and Morgan, 1979). In other words, the outer environment to which people are exposed plays a major role in affecting their behaviour and activities. In this assumption, research argues that by knowing about the background environment, a person can study research subjects or examine these experiences. In contrast, from a voluntarist viewpoint, Burrell and Morgan (1979) argue that people are totally independent and unpredictable and they can alter their environment by making decisions of their own. Voluntarism focuses on people being 'free-willed' with the ability to control their environment instead of being controlled by it.

Finally, according to Saunders et al. (2012), methodology tries to integrate all of the above by taking into account the entire theoretical as well as philosophical underpinning of a piece of work, along with providing a rationale for the choice of research methods. The chosen method is strongly based upon the aforementioned three assumptions. According to Burrell and Morgan (1979), social scientists have an inclination towards different methodologies which depict different models of human nature, epistemologies, and ontologies. These result in two different methodological approaches; ideographic and nomothetic. Nomothetic methods are based upon the idea that the social world is similar to the natural or physical world, and can be studied by observing outcomes. In contrast, ideographic methodology focuses on understanding the social world by gaining primary knowledge from personal experience (Burrell and Morgan, 1979).

### 6.2.2 Assumptions about the Nature of Society

According to Burrell and Morgan (1979), assumptions relating to the nature of society can be thought of as a spectrum: this comprises what may be characterised as the order/conflict debate or the social regulation/radical change dimension. Assumptions about order and conflict relate to alternative perceptions about the structure of society (Lockwood, 1956, as cited in Burrell and Morgan, 1979; Dahrendorf, 1959, as cited in Burrell and Morgan, 1979). Conflict is related to the challenges linked with change disagreement, disintegration, and the use of force in society's structure. But order concerns functional coordination, consensus stability, and integration (Burrell and Morgan, 1979). These two points of views have been renamed as the 'radical change' and 'regulation' perspectives by Burrell and Morgan (1979); and the characteristics of these two alternative approaches are listed in Figure 6.2.

**Table 6.2: The Characteristics of Regulation and Radical Change Approaches of the Nature of Society**

The Sociology of 'Regulation'	The sociology of 'Radical Change'
<ul style="list-style-type: none"><li>- The status quo</li><li>- Social order</li><li>- Consensus</li><li>- Social integration and cohesion</li><li>- Solidarity</li><li>- Need satisfaction</li><li>- Actuality</li></ul>	<ul style="list-style-type: none"><li>- Radical change</li><li>- Structural conflict</li><li>- Modes of domination</li><li>- Contradictions</li><li>- Emancipation</li><li>- Deprivation</li><li>- Potentiality</li></ul>

**Note:** This table shows the components of Burrell and Morgan's (1979) two alternative approaches to the nature of society.

The regulation characteristic deals with trying to explain society in such a way that its cohesiveness and unity is highlighted (Burrell and Morgan, 1979). On the other hand, the focus of the sociology of radical change method is on power and ways it is divided in society, in other words, it is concerned with seeking emancipation from the structures which stunt or limit the potential for development (Burrell and Morgan, 1979).

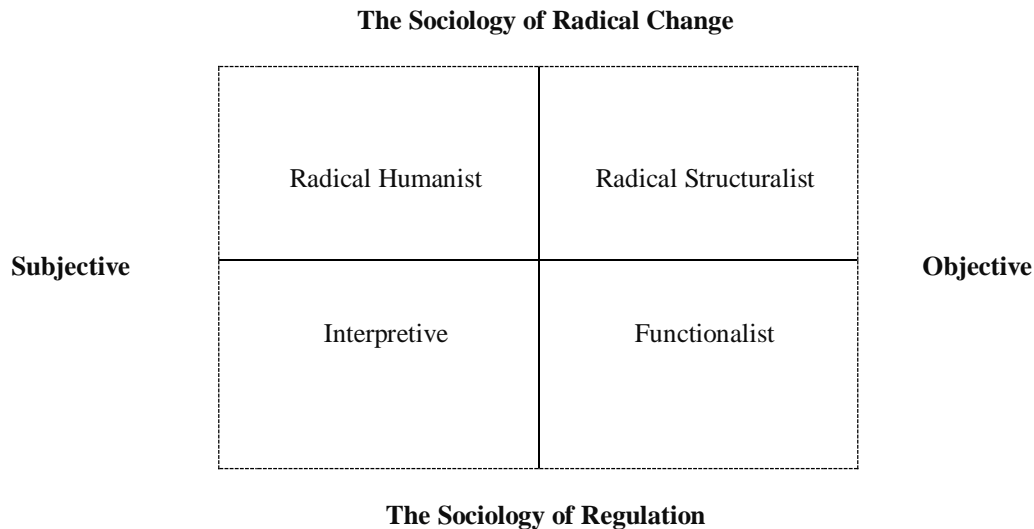
### **6.2.3 Research Paradigms**

Saunders et al. (2012) defined a paradigm as "a way of examining social phenomena from which a particular understanding of these phenomena can be gained and explanations attempted" (pp. 140-141). Through a research paradigm, it is possible to set up a conceptual framework i.e. a method of studying and analysing the social world we live in (Burrell and Morgan, 1979). It helps to clear up whatever research assumptions researchers hold about the way society and science work. It can clarify the approach other researchers have towards their studies in the planning and designing of research so that interested parties understand what the study is about and the perspective they need to take in terms of concepts and attitudes (Burrell and Morgan, 1979).

Two different classes of philosophical assumptions were proposed by Burrell and Morgan (1979) that were linked to the nature of society. Social science assumptions (objective and subjective) are placed on a continuum, matching alternative assumptions about society's nature (sociology of radical change and sociology of regulation) to another continuum. They linked these dimensions of philosophical assumptions about social science to create a two by two matrix. This leads to the creation of four, mutually exclusive, paradigms that are rooted in various human nature, epistemological and ontological assumptions: interpretive, radical humanist, radical structuralist and functionalist. An analysis of this can be seen in Figure 6.1. Burrell and Morgan (1979) stated that it is not possible to work in more than one paradigm at one time. They argue that the reason why this is not possible is that by assuming one set of paradigm assumptions, other paradigm assumptions are defied (Burrell and Morgan, 1979).



**Figure 6.1: Four Paradigms for the Analysis of Social Theory**



**Source:** Burrell and Morgan (1979, p. 22).

It was further argued by Burrell and Morgan (1979) that any researcher who takes up an interpretive or functionalist position needs to agree with the principles of stability and regulation. The functionalist paradigm derives from the regulation and objective sections of the respective dimensions. This paradigm expects the researcher to use a positive epistemology, nomothetic methodology, a deterministic viewpoint on human nature and a realistic ontology. Functionalist researchers typically try to determine what may be perceived as a "rational" explanation for human nature and use "reality-based" facts to determine their results. Burrell and Morgan (1979) argued that the functionalist paradigm "represents a perspective which is firmly rooted in the sociology of regulation and approaches its subject matter from an objectivist point of view" (p. 25). "This approach has tended to be the dominant paradigm for much accounting and finance research since the 1970s" (Dunne, 2003, p. 122). On the other hand, within the interpretive paradigm it is possible to believe in the use of the sociology of regulation but focus on the use of a subjectivist method that lets the researcher use an anti-positive epistemology, nominalistic ontology, a voluntaristic

viewpoint on human nature, and employ an ideographic methodology. In this perspective, the researcher can attempt to study and analyse the basic meaning of our social world, as well as trying to observe on-going processes in order to better understand individual behaviour (Burrell and Morgan, 1979).

The top half of Burrell and Morgan's diagram (Figure 6.1) is based on the sociology of radical change where the researcher has either a radical humanist or radical structuralist orientation to gaining a holistic understanding of social structures (Burrell and Morgan, 1979). For example, the radical structuralist paradigm focuses on changing the social world's structure, and achieving fundamental change. It focuses on the same real, positivist, deterministic and nomothetic methodology as the functionalist paradigm but within a framework characterised by the need for radical change (Burrell and Morgan, 1979). On the other hand, the radical humanist approach focuses on subjectivism and radical change. The purpose of researchers adopting the radical humanist paradigm is to understand the relationship between inner consciousness and the outside world which could become clearer. This focuses on reducing the limitations and burdens on the human potential by aiming to alter social structures, and, as with the interpretive paradigm, it is based on nominalism, anti-positivism, voluntarism and an ideographic methodology but this time within a framework that recognises the need for change (Burrell and Morgan, 1979).

Burrell and Morgan's ideas have proved very popular in the field of social science research, and have been widely considered in the accounting literature (for example, Dunne, 2003; Al-Qarni, 2004; Momin, 2006; Falgi, 2009; Abouzkeh, 2012; Mardini, 2012; Dawd, 2014). Their context and ideas have been practically helpful by giving people different dimensions to think about, particularly based on allowing researchers to focus on considerations such as

ontology, epistemology, human nature and methodological assumptions. However Burrell and Morgan's work has been subjected to criticism. For example, Clair (1999) argued that the framework provided by Burrell and Morgan (1979) ignored both feminist and postmodernist perspectives, as well as pointing out that the psychological perspective was absent in the analysis submitted by the functionalist paradigm. In addition, Chua (1986) argued that Burrell and Morgan's framework had some weaknesses due to:

"their use of mutually exclusive dichotomies (determinism v. voluntarism); (b) their misreading of Kuhn as advocating irrational paradigm choice; (c) the latent relativism of truth and reason which their frame-work encourages; and (d) the dubious nature of the differences between the radical structuralist and humanist paradigms" (p. 603).

In addition, according to Chua (1986) "transplanting an unmodified framework from sociology implies some equivalence between the two disciplines ... those about social science and about society" (p.603).

A central argument put forward by some critics of Burrell and Morgan relates to the idea that the researcher should select only one paradigm, not more, since they argue that in order to adhere to the assumptions of one paradigm, one is deemed to have defied the assumptions of all of the other paradigms. But it can be argued that the researcher should not be limited to the use of one paradigm (Saunders et al., 2012); in fact each paradigm may be thought of as representative of a continuum, so the place on this continuum is based on the needs of the researcher. A neutral stance can also be adopted which covers the perspectives given by both the paradigms (Chua, 1986).

A structure proposing a middle-range stance was taken by Laughlin (1995) who recommends a 'skeletal approach'. He does so by making a selection at the mid- level of every continuum. These continuums are: change, theory and methodology. 'Change' is related to the nature of

society while the last two are concerned with the nature of social science. It particularly refers to the degree to which the research is focused towards making a change in the phenomenon being observed. These dimensions were placed into three scales by Laughlin (1995) the scale being low, medium and high. He is of the opinion that at various levels several viewpoints are present having varied sets of assumptions based on methodology, epistemology and ontology. He debated adopting a middle level on these three continuums instead of focusing on the extreme. He describes this as "middle-range thinking".

#### **6.2.4 The Research Paradigm Adopted in this Thesis**

This section outlines the philosophical assumptions of the current investigation, and some justifications for applying qualitative and quantitative methods in the study are provided by highlighting the particular world-view of this researcher about the nature of social science and society.

The main objective of this study is to investigate the provision of, and perceptions relating to the provision of, CSD information by Saudi listed companies; this is essentially a voluntary activity in Saudi Arabia. This is achieved by an examination of corporate annual reports to find out if companies do provide this type of information or not, as well as exploring the volume and the nature of the information. Preparers of annual reports (companies' managers) and other stakeholders' (employees, shareholders/investors, the Capital Market Authority 'CMA', and academics) perspectives regarding such provision and the importance of the information are then sought in order to provide a comprehensive basis to facilitate addressing the research questions.

The philosophical perspective of the researcher is now outlined in the context of the research purposes given before. The researcher does not imagine a definite truth "out there" and thus she tends towards a nominalist view of ontology. Social science is considered as subjective rather than objective practice with information dependent on some specific context. Knowledge is believed to be extracted from two key resources as per this study. Firstly, knowledge is gathered from content analysis of CSD information provided in Saudi corporates' annual reports. Subjective analysis assists the subsequent transformation of data collected for this purpose into its significant categories. Second, knowledge originates via the questionnaire survey from individual perceptions about the provision of CSD information from different stakeholder groups. Humans are viewed as not completely formed by their surroundings, and having some extent of freedom. This puts the researcher at an intermediate viewpoint on human nature. Any society is assumed as being capable of change, but the existing condition needs to be carefully examined to recognise where such change, if necessary, should be focused. The aspects concerning fundamental characteristics of the nature of society according to the Burrell and Morgan framework aid the researcher's own self-awareness about the nature of research.

The current study is of an exploratory nature and its aim is to provide a descriptive account of CSD related information, and the perspectives of different stakeholder groups. The ideographical approach will be adopted in terms of methodology in this research, which would seek exploration and description of the perceived reality of the questionnaire participants and annual report preparers. The study is performed within the interpretive paradigm according to Burrell and Morgan (1979), as it is based on a nominalist approach from an ontological standpoint, an anti-positivist approach from an epistemological

standpoint, an intermediate approach from a human nature standpoint, and finally the use of ideographic methodology. The researcher in the interpretive paradigm should have in mind that all human beings are different in character and play a different role in society. This is the reason people are studied and their opinions recorded on all the important topics concerning the topic under review. The researcher uses information collected from participants in an attempt to understand the social roles of others according to their own set of meanings (Saunders et al., 2012). It is suggested that an interpretivist researcher should have a considerate attitude since they will come in contact with different people from different parts of the world, some thinking like them while others differ from them while they must be open to receiving all opinions. Using ideographic methodologies, as well as conducting the research within an interpretive paradigm, tends to lead to the use of qualitative methods but does not preclude use of quantitative methods; both are employed in the current study.

Having reviewed the methodology used in this thesis, the next section will describe the methods employed in collecting the primary research data.

### **6.3 Method**

Following the articulation of an appropriate research conceptual framework, "the researcher is required to establish the evidence to support the argumentation" (Abouzkeh, 2012, pp. 49-50), by means of the choice of suitable research methods. Mardini (2012) concurred adding that "appropriate methods should then be selected to address the research questions being considered" (p. 141). Research methods were defined by Crotty (1998) as "the techniques or procedures used to gather and analyse data related to some research question or hypothesis" (p 3). Chua (1986) added that what is considered a "correct" research method "will depend on how truth is defined" (p. 604).

Amaratunga et al. (2002) categorised research methods into two distinct types namely: qualitative and quantitative and they argued that both of them can be employed for collecting and analysing data. They stated that:

"The former concentrates on words and observations to express reality and attempts to describe people in natural situations. In contrast, the quantitative approach grows out of a strong academic tradition that places considerable trust in numbers that represent opinions or concepts" (p. 19).

This research adopts content analysis and a questionnaire survey as the methods used for collecting the primary research data to achieve the study's objectives and answer the research questions. It may be argued that content analysis and questionnaire surveys can be considered as both qualitative and quantitative methods, as they incorporate qualitative aspects with subjective elements. The content analysis method is based on transferring qualitative data to a quantitative scheme in regards to analysis of the content of the document. This involves subjective elements including choosing the sampling unit; determining the coding unit of measurement; and developing the categories. A questionnaire survey also involves subjective elements in its process including choosing and deciding the questions; the scale of answering the questionnaire; deciding the respondents sample; and interpreting the findings.

Content analysis was undertaken to provide a preliminary indication of the nature and volume of CSD practices in Saudi Arabia and also to explore the context in which this kind of disclosure is taking place in this particular country. In addition, since the aim of this study is to explore stakeholders' perspectives and, as the spirit of the empirical survey is to explore views and perceptions, thus, the second empirical method is a questionnaire survey. The next two sections discuss these methods in detail.

### **6.3.1 Content Analysis**

Content analysis has been defined widely by many authors since the 1950s. Berelson (1952, as cited in Riffe et al., 2005) provided one of the earliest definitions of this technique defining content analysis as "a research technique for the objective, systematic, and quantitative description of the manifest content of communication". Abbott and Monsen (1979, p. 504) defined content analysis as "a technique for gathering data that consists of codifying qualitative information in anecdotal and literary form into categories in order to derive quantitative scales at varying levels of complexity". Rubin and Babbie (1993, p. 406) defined it as "a way of transforming qualitative material into quantitative data. It may be applied to virtually any form of communication, not just available records". Krippendorff (1980, p. 21) set a widely quoted definition of content analysis as "a research technique for making replicable and valid inferences from data to their context". Also Weber (1990) defined it as "a research method which uses a set of procedures to make valid inferences from text. These inferences are about the sender(s) of the message, the message itself, or the audience of the message" (p. 9).

Content analysis has been used as a research method in the behavioural sciences since the late 1960s, specifically in sociology, theology and philosophy (see, Krippendorff, 1980). It has been used to quantify and analyse the content of printed communications such as newspapers and in sociological and linguistic studies for many purposes ranging "from issues with political symbols and misinformation to myths, folktales and riddles" (Krippendorff, 1980, p. 13). This method is commonly used to study the subject of an interview so that future inferences can be made in association to the actions and beliefs of the interviewee (Scott and Morrison, 2006). Initially, this technique "was considered to be a quantitative technique but



its use has extended to literature, autobiography and other documents that demand qualitative interpretation of the data" (Malik, 2008, p. 135).

Content analysis implies that the information collected via communication is a matter of concern. Symbols, volume and meaning are all significant elements in finding the social role and effects of content analysis. The number of symbols offer some sort of significance to the sender and receiver in the specific context/period when these are written (Krippendorff, 1980). Singleton and Straits (2005, as cited in Malik, 2008) stated that content analysis decreases the total content of any communication to a set of categories that signify some features of research interest, and according to Krippendorff (1980) content analysis shows how the occurrence and its value has altered with time within a particular socio-political context.

An important feature of content analysis is that it is then associated with studying written communications. Krippendorff (1980) stated that communication links social institutions together. Communication can be in any form, messages that are sent within a text are a major way to conclude the association between any particular social institution and other organisations in a society by examining the symbols and events that are referred to in their communications, particularly in written communications (Krippendorff, 1980). Morris (1994) stated that information can be gleaned from the content analysis of a wide range of communications media, for instance, for recorded speeches, electronic media which contains video tapes, television and internet/websites (Malik, 2008). Management research typically uses content analysis to understand the textual communications of managers (Morris, 1994).

### **6.3.1.1 Use of the Content Analysis Method in Accounting and Finance**

Many areas of accounting and finance use content analysis in their research (Dunne, 2003). The content analysis method has been extensively used in social and environmental reporting studies (Gray et al., 1995b). These studies are based around the hypothesis that the amount of disclosure relates to the significance of the item being disclosed (Unerman, 2000; Campbell, 2003). Most of the CSD studies using content analysis are based on this principle (for example, Ernst and Ernst, 1978; Abbott and Monsen, 1979; Guthrie and Mathews, 1985; Guthrie and Parker, 1989; Zeghal and Ahmed, 1990; Patten, 1991; Patten, 1992; Gray et al., 1995a; Gray et al., 1995b; Deegan and Gordon, 1996; Deegan and Rankin, 1996; Hackston and Milne, 1996; Adams et al., 1998; Buhr, 1998; Neu et al., 1998; Tsang, 1998; Unerman, 2000; Belal, 2001; Deegan et al., 2002; Newson and Deegan, 2002; Campbell et al., 2003; Gao et al., 2005; Haniffa and Cooke, 2005; Perrini, 2005; Bayoud et al., 2012a; Bayoud et al., 2012b; Razak, 2015).

### **6.3.1.2 Stages in the Content Analysis Process**

The process of content analysis comprises numerous stages (Krippendorff, 1980). Abbott and Monsen (1979, p. 504) defined content analysis as:

"a technique for gathering data that consists of codifying qualitative information in anecdotal and literary form into categories in order to derive quantitative scales at varying levels of complexity".

The process could be categorised in the following six stages (Krippendorff, 1980). First, there is a need for an appropriate representative sample. Apart from the sample population, there is also a need to choose a sampling unit like letters to shareholders, drafted exposures, accounting principles, annual reports, and so on (Krippendorff, 1980). In accounting content

analysis studies, a well-known sampling unit is the corporate annual report, particularly in the context of CSR and disclosure (Gray et al., 1995a; Gray et al., 1995b).

Second, there is a need to determine the coding unit or measurement unit (Krippendorff, 1980). The coding units may comprise spaces, items, characters, themes, and words measures i.e. paragraphs, lines, text inches, and so on.

Third, there is a need to develop an appropriate categorisation (Krippendorff, 1980). An appropriate theoretical structure is essential for avoiding inadvertent bias, as well as for filtering the idiosyncrasies of researchers (Carney, 1971, as cited in Dunne, 2003). It is neither possible to eliminate the component of subjectivity, nor is it easy to control it, but the existence of accurately determined categories that are well-established at the beginning can support the facilitation of an accurate categorisation of instances of disclosures (Krippendorff, 1980). The element of objectivity requires a precise determination of the categories of analysis in order for other analysts to achieve similar results while examining the same body of content (Berelson, 1952, as cited in Mashat, 2005). According to Holsti (1969), objectivity necessitates every decision to be led by a specific set of rules which decrease (but do not remove) the probability that a resulting outcome reflects the subjective predisposition of analysts. Hence, objectivity's first test is: could different analysts accomplish the same results upon pursuing the same procedures by using the same set of rules/data? This need for objectivity provides a scientific standing to the process of content analysis (Kassarjian, 1977).

Fourth, there is a need for a pre-test or a pilot study to evaluate the forcefulness of the research instrument and decision-making rules (Carney, 1971, as cited in Dunne, 2003). In

concerning this pre-testing there might also be a need to adjust the decision rules as a procedural step. The material's sample should also be retested by numerous coders to assure its consistency from the perspective of decision rule application (Krippendorff, 1980).

Fifth, the recording and data coding identify the explicit instances of determined disclosures for classification in accordance with the predefined decision rules. In support of content analysis, Krippendorff (1980) has determined various necessary components for a consistent recording of data. The analysts need to possess related experience prior to analysing any type of data. They need to pre-set the decision rules at the outset to prevent any ambiguity. Prior to engaging in any content analysis project, every analyst must undertake the appropriate training to assure a constant categorisation of data into certain groups.

"One of the principal characteristics of content analysis is that the data collected should meet tests which suggest that they are "objective", "systematic" and "reliable", (Krippendorff, 1980). Further, these tests imply/ and the method of content analysis requires/ that the whole process employs "shared meanings". In effect this means that definitions employed in the data collection are negotiated to achieve "shared meanings" which recreate the same referents in all the associated researchers" (Gray et al., 1995b, p. 80).

Eventually, the transfer of data into a computer directory is required to support the process of numeric or statistical analysis. Hence, an appropriate framework is imposed using this process particularly for facilitating the numerical analysis on unframed documents (like annual reports) (Unerman, 2000). Upon summarising statistical data, in addition to descriptive measures, it may be possible to draw inferences (using the data itself) by examining it in conjunction with an analytical framework based on literature and theory.

### **6.3.1.3 Reliability and Validity**

As with all forms of research a major issue relates to the validity and reliability of content analysis in every procedure (Krippendorff, 1980). An important feature of content analysis is its own reproducibility or reliability (Krippendorff, 1980).

Reliability in content analysis can be identified in three ways: accuracy, reproducibility, and stability (Krippendorff, 1980). Stability is concerned with the ability of judging code data in similar ways over time. Reproducibility refers to measuring the similarity of code data amid the involvement of several coders (Krippendorff, 1980). Inter-coder reliability is defined as an agreed proportion among the various coders working with the same communication materials (Krippendorff, 1980). In fact, similar results should be achieved by every researcher who follows the exact procedures for coding data and communication methods (Amaratunga et al., 2002). Certain decision rules are used to ensure the reliability of content analysis in the processes of measurement, sub-categorisation and classification. Hence, regardless of time intervals, every researcher should generate the same coded disclosures upon applying the same decision rules, thereby assuring the content analysis' reproducibility and reliability (Gray et al., 1995b). Accuracy of reliability is measured through the assessment of coding performance against previous research, or against a predefined standard (Krippendorff, 1980).

Validity in content analysis refers to measuring what is intended to be measured, in other words, how well the results of a study mirror reality (Jones and Shoemaker, 1994). A coding scheme is required to be developed to enhance validity which could lead the coders while analysing the content. A systematic and consistent coding process supports the analysis of

content in many ways, such as assuring valid conclusions, helping to ensure the theoretical relevance of findings, and eliminating biased or partial analysis (Krippendorff, 1980).

Support for the content analysis method can be found in specific studies in the literature, for example, steps to ensure the validity and reliability of content analysis were described in Milne and Adler's study (1999) through usage of various coders (experts measuring the codes). They determined that the amount of overall CSD could be captured from the text from this approach realistically and authentically.

Information regarding the content analysis design for this study, the pilot test, the sample selected and the content analysis findings are presented in Chapter 7.

### **6.3.2 Questionnaire**

Sekaran and Bougie (2013) defined a questionnaire as a "preformulated written set of questions to which respondents record their answers, usually within rather closely defined alternatives" (p. 147). It is a technique to collect data whereby each participant is asked to answer a similar set of questions (Oppenheim, 1992). It has been acknowledged as one of the successful and standard data collection methods in social science (Oppenheim, 1992). It is considered a useful and flexible tool to collect both quantitative and qualitative information (Walliman, 2011). Hence it has been adopted by many studies in terms of collecting individual views related to CSD issues such as Tilt (1994), Abu-Baker (1995), Jaggi and Zhao (1996), Deegan and Rankin (1997), Tilt (1997), Deegan and Rankin (1999), Williams (1999), Belal (2001), Newson and Deegan (2002), Ahmad (2004), Bayoud et al. (2012a).

A questionnaire survey has the benefit that it allows many individuals' views to be taken into account by the study which can be more significant when there is a limited amount of

information that is known about a field of study. Therefore it is used here as the second method to gather data regarding stakeholders' perspectives of CSD provided by Saudi listed companies.

#### **6.3.2.1 Types of Questionnaire**

Oppenheim (1992) argues that there are three types of questionnaires. The first is a self-completion questionnaire which allows the respondents to reply to the questions on their own. The second is a telephone questionnaire survey where respondents reply to questions over the telephone. The third is a face to face questionnaire (personally administrated questionnaire) where the researcher is with the respondent while they are answering the questionnaire to help him/her with the questions that are being asked. In addition to these three mentioned types of questionnaire, Sekaran and Bougie (2013) distinguished between mail and electronic questionnaires, which are essentially ways of administering self-completion questionnaires.

#### **6.3.2.2 Advantages and Limitations of Questionnaires**

There are many advantages of using a questionnaire survey. It is relatively inexpensive, less time consuming than interviews, can easily be distributed to people in different locations around the world, it does not require lots of skills to be administered compared with other methods such as interviews, and the absence of the researcher eliminates his/her bias on participants (Sekaran and Bougie, 2013). However, the researcher cannot clarify questions, and respondents must be willing to complete the survey (Sekaran and Bougie, 2013).

The personally administered questionnaire has other advantages: it is considered a good method of collecting information when the survey is limited to a specific locality, the

researcher gets the opportunity to introduce the topic, motivate the participant, clarify any doubt, enhance the response rate and have the opportunity to check the questionnaires for completeness (Oppenheim, 1992; Sekaran and Bougie, 2013). However, it takes time and effort to collect the data, and the researcher's explanation can introduce bias (Sekaran and Bougie, 2013).

The online questionnaire has other advantages: the anonymity might encourage respondents to complete the questionnaire; they can answer at their preferred time; and it can be administered electronically (Sekaran and Bougie, 2013). Nevertheless, using this method has some disadvantages: respondents can only provide responses this way when they are familiar with a computer and feel comfortable using it; if the respondents do not have computer tools, internet services, or an email address, then using the online questionnaire will not be a successful method; finally, the response rate is typically low (Denscombe, 2003; Sekaran and Bougie, 2013).

### **6.3.2.3 Structure and Design of Questionnaire**

The structure and design of the questionnaire and the initial pilot testing is critical to the validity and reliability of the data collected by the researcher and the response rate he/she may attain (Saunders et al., 2012). In line with Sekaran and Bougie (2013) multiple factors need to be considered in designing a questionnaire. These include the wording of questions; the ways the variables will be categorised, scaled, and coded after receipt of the responses; and the general appearance of the questionnaire. They stated that "all three are important issues in questionnaire design because they can minimise biases in research" (Sekaran and Bougie, 2013, p. 149).



According to Sekaran and Bougie (2013), there are a number of factors that should be considered in developing a questionnaire to avoid the major issues of language and wording which are:

"...avoiding double-barrelled questions, ambiguous questions, leading questions, loaded questions, questions prone to tap socially desirable answers, and those involving distant recall. Questions should not be unduly long" (p. 153).

One of the most substantial considerations for any researcher in formulating a questionnaire is to either go for open-ended questions and/or closed ones. An open-ended question gives a respondent the freedom to answer explicitly and subjectively in their own words, whereas closed-ended questions are mainly objective and provide respondents with specified choices of response. The advantages of closed-ended questions are that they are easier for the respondents to answer, easier to administrate, to code, and to analyse (Oppenheim, 1992; Sekaran and Bougie, 2013). However, this can result in people being influenced to choose acceptable answers from the researcher's perspective. Accordingly, participants might get dissatisfied at not being given freedom in expressing their view point (Oppenheim, 1992; Sekaran and Bougie, 2013), which can cause findings to lack depth and variety, and miss interesting discoveries that might be captured through open-ended questions (Gillham, 2000). The disadvantages of open-ended questions are that they might be very much challenging to organise, code, and analyse the gathered data, and more time consuming (Oppenheim, 1992). In addition, open-ended questions could reduce the response rate (Denscombe, 2003).

Saunders et al. (2012) observed that respondents' readiness to take part in a study depends on the way the questionnaire is organised and managed and the researcher should spend a considerable amount of time in formulating the questionnaire. There are two ways in which questions can be set. Either they could be considered randomly, or they can be asked in a

gradual progressive manner according to the study objectives. If the questionnaire is not random, then the questions should be set starting from the most common questions which are simple in description, leading towards more precise and detailed ones, and from questions that are relatively simple to answer, then gradually leading to the more difficult ones, this approach is called "the funnel approach" (Oppenheim, 1992; Sekaran and Bougie, 2013).

According to Sekaran and Bougie (2013), in order to help the researcher to describe participants' characteristics, it is suggested that their personal data be gathered to help when the researcher is evaluating the outcomes of the study. The classification data depends on the type of study, but commonly covers information such as age, gender, qualifications, work experience, profession, marital status and earnings. The respondents' name should not be asked unless absolutely necessary, when it should be kept confidential in a secure document<sup>53</sup>. The researcher may decide to position questions asking personal information and demographic values either at the beginning or at the end of the questionnaire<sup>54</sup> (Sekaran and Bougie, 2013).

The pilot study plays an important part in formulating and designing the questionnaire. It helps the researcher to ensure that the questionnaire is well designed, and to identify a range of issues related to the questions and to solve them, thus it is able to produce proper responses from the selected sample (Smith, 2011). These issues include: the scope and kind

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<sup>53</sup> In order to ensure the anonymity of respondents even if the questionnaires should fall into someone else's hands, data should be formulated in a numerical system. "The questionnaire can be numbered and connected by the researcher to the respondent's name, in a separately maintained, private document" (Sekaran and Bougie, 2013, p. 153).

<sup>54</sup> Various researchers consider that personal information questions should be asked at the end of the questionnaire as they believe that by the time respondents reach the end of the questionnaire they would have been convinced of the genuineness of the study made by the researcher (Oppenheim, 1992). But many researchers seek personal and demographic information at the start of the questionnaire as they believe that respondents may have psychologically identified with the questionnaire and feel committed to responding as they have described themselves initially (Sekaran and Bougie, 2013).

of questions asked; the way the questions were structured; the sequence in which the questions were asked; questions that were unnecessary or were missing; questions which were unsuitable or inadequate; and the scale used in measuring the variable of interest. It helps, also, to ensure that the study participants were able to comprehend the questions.

#### **6.3.2.4 Questionnaire Sample**

Sekaran and Bougie (2013) define population as:

"The entire group of people, events, or things of interest that the researcher wishes to investigate. It is the group of people, events, or things of interest for which the researcher wants to make inferences (based on sample statistics)" (p. 240).

The selective sample should represent the population "in which the profile of the sample is the same as that of the population" (Vaus, 2002, p. 70). Sekaran and Bougie (2013) stated that "a study of the sample and an understanding of its properties or characteristics make it possible for us to generalise such properties or characteristics to the population elements" (p. 244).

According to Sekaran and Bougie (2013), there are two types of sampling design: probability sampling in which "the elements of the population have some known, nonzero chance or probability of being selected as sample subjects", and nonprobability sampling in which "the elements do not have a known or predetermined chance of being selected as subjects" (p. 245). The choice between these two types depends on the extent of generalisability desired, the purpose of the study, and the demands of time and other resources. There are two types of probability sampling: unrestricted sample (simple random sample) in which "every element in the population has a known and equal chance of being selected as a subject" (Sekaran and Bougie, 2013, p. 247), and restricted sample (complex probability sampling) in which its

"procedures offer a viable, and sometimes more efficient, alternative to the unrestricted design" (Sekaran and Bougie, 2013, p. 248). As with probability sampling, nonprobability sampling also has two main types: convenience sampling which is "the collection of information from members of the population who are conveniently available to provide it" (Sekaran and Bougie, 2013, p. 252), and purposive sampling which is used "to obtain information from specific target groups...who can provide the desired information" (Sekaran and Bougie, 2013, p. 252) because they are the only people who have this information or they fit with the criteria which have been set by the researcher (Sekaran and Bougie, 2013).

Information regarding the questionnaire's design for this study, the pilot test, sample selected and the questionnaire's findings are presented in Chapter 8.

#### **6.4 Summary and Conclusion**

This chapter outlines various philosophical viewpoints with regard to the assumptions about the nature of social science and the nature of society as outlined by Burrell and Morgan (1979). Moreover, this chapter has delineated the procedural selections made for this study including the research methodology and methods used for this research. It provides details about the philosophical suppositions provided by Burrell and Morgan (1979), Laughlin (1995), and the critique articulated by Chua (1986). The researcher has undertaken an interpretive approach based on her ontological, epistemological, human nature and methodological stances and both qualitative and quantitative methods have been used in order to explore the main research question and sub-research questions (discussed in Chapter 1).

The researcher described, in general terms, the conducting of the qualitative and quantitative method of content analysis and questionnaire survey. This chapter discussed the use of content analysis as a method in accounting and finance research; stages in content analysis; and the reliability and validity of content analysis. These in turn help in interpreting results from the content analysis of Saudi listed companies' annual reports, which is presented in Chapter 7 with more details related to the content analysis applied for this study. In addition, this chapter described the issues to be considered when designing and administering a questionnaire which is the second method used to collect data in this study. The chapter illustrated the different types of questionnaire; outlined the advantages and disadvantages of using a questionnaire survey; and explained the components of designing a questionnaire. More details regarding the questionnaire's design for this study and the findings of the questionnaire are discussed in detail in Chapter 8.

## **Chapter 7 : Content Analysis**

## **7.1 Introduction**

Chapter 6 outlined the methodology and methods used in the present analysis; it also detailed the process which was followed in conducting each method. This chapter details the first empirical method applied in this study, which examines the type and volume of CSD provided by Saudi companies. The study conducts this analysis for the total level of disclosure, as well as for different categories of disclosure (namely, environment, employees, society and customer disclosures). In addition, the analysis is performed for the majority of the firms listed on the Saudi Stock Exchange, while providing a specific analysis of each type of industry. The chapter therefore examines the extent to which, if at all, Saudi companies do provide CSD information in their annual reports, as most of this type of information is voluntary (except information related to Zakat, pension data, and the remuneration of the Board of Directors and senior executives). For those companies that provide CSD information, the chapter also documents the type and volume of this information. In addition, this analysis explores if there are any differences in the volume of information between the main areas of disclosure (environment, employees, community, and customer) or whether they have been given equal attention, in terms of volume, by the preparers of the annual reports. Moreover, the chapter examines whether there are any differences in the nature or volume of disclosure between different economic sectors. Also, the chapter provides information related to the nature of CSD: the types of disclosure, and examines the auditability of disclosed information. In addition, the location of CSD information within the annual reports is determined as well as providing an analysis of separate sustainability and social responsibility reports.

In the current research, content analysis is basically considered as a qualitative method of research. Nevertheless, it is recognised that the process generates quantitative data. It is pertinent to note that the choice of disclosure categorisation is associated with an element of subjectivity, in spite of the objectivity claimed in the content analysis literature (Dunne, 2003). Yet, using pre-assessment techniques and developing rigorous decision rules helps to minimise subjectivity and counteract claims of unreliability (Gray et al., 1995b; Dunne, 2003; Dunne et al., 2008; Crawford et al., 2009). However, an element of subjectivity is permitted within the philosophical assumptions of interpretive research (Dunne, 2003).

The remainder of the chapter is organised as follows. Section 7.2 outlines the data and method of analysis utilised in the present study. Section 7.3 reports the findings of applying the content analysis method, and Section 7.4 acknowledges the advantages and the limitations of using content analysis in this study. Finally, the discussion and some conclusions are offered in Section 7.5.

## **7.2 Data and Analysis**

Content analysis has been applied in many accounting and finance studies especially in the area of CSD (Dunne, 2003). The instrument developed by Gray et al. (1995b) and modified by Dunne (2003), Dunne et al. (2008) and Crawford et al. (2009) has been used in this study to examine CSD practices in Saudi Arabia companies. Applying the content analysis method involves a number of basic stages (which are explored more fully in Section 6.3.1.2). When making use of content analysis, selections have to be made and the following sub-sections explain the rationale used for the choices that were made.



### **7.2.1 Sample Choice and Sampling Unit**

In previous studies, content analysis has been frequently applied to annual reports as the primary unit of analysis (Momin, 2006). For the inspection and gathering of data, selections concerning the unit of analysis have to be made; this holds in relation to any content analysis (Gray et al., 1995b; Unerman, 2000; Krippendorff, 2013). There are many reasons why much academic attention has focussed on annual reports (Gray et al., 1995b). The annual report was often selected for pragmatic reasons related to its ready availability (Zeghal and Ahmed, 1990), and its importance as a key communication document for organisations (Gray et al., 1986; Dunne, 2003). The collection of comparable data on corporate social matters by other means was not regarded as feasible for many organisations due to differences in communication media (Gray et al., 1995b). Therefore, claiming that one has captured all the media of communications could be doubtful, as Gray et al. (1995b) state that "it simply proves impossible to be certain that one has identified all communications "(p. 82). This is a primary factor for focussing only on annual reports (Gray et al., 1995b).

In addition, annual reports are a key source and method of corporate communication of corporate social information (Gray et al., 1995a; Gray et al., 1995b). This document is accorded a great deal of significance and is a preferred communication channel through which a company passes on information about its operations to the public since it is the concluding product of the accounting system in any economic unit (Adams et al., 1998; Milne and Adler, 1999). Because of its high level of credibility, annual reports are also considered as substantial documents for CSD (Tilt, 1994). Neu et al. (1998, p. 269) note that "besides being read by the organisation's (sic) relevant public, the annual report possessed a degree of credibility not associated with other forms of advertising". Thus, annual reports

could document the relationship between society and business (Neimark, 1992) and might have a strong effect on opinions formed about the company (Hines, 1988). The annual report is a well-recognised published document and is widely distributed (Buhr, 1998). It is a formal and legal report which includes statutory and voluntary disclosure (Hackston and Milne, 1996; Buhr, 1998). According to Neimark (1992), there is a possible expectation of official (legal and/or regulated) documents at specific intervals of time, by stakeholders. Adams et al. (1998) justified the use of the annual report when they stated that:

"The single most important source of information on corporate activities is in most, if not all cases, the annual report and accounts, and this is the only document that is automatically sent to shareholders by all companies"(p. 5).

The annual report is a primary means by which the company promotes itself (Gray et al., 1995b). Through this, any potential conflict between a company as a financial entity and as an environmental and social entity, which is vital to CSD, may be identified (Hackston and Milne, 1996). According to Adams and Harte (1998), the annual report gives management the chance to disclose what they think is suitable because it has potential influence in shaping what appears to be essential in society. Adams and Harte (1998) also mention that the significance of an annual report is based on what it reveals and what it does not. Gray et al. (1995a) supported the use of annual reports to study CSR which deliver financial and social information in one document<sup>55</sup>. Understanding the social and financial image of a company may be possible through the study of this one single document. This is because a company has the opportunity to show how it reconciles some contradictory social and financial images of itself through the annual report (Gray et al., 1995a).

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<sup>55</sup> Gray et al. (1995a) stated that: "the annual report is considered widely to be a major formal document which acts as a significant presentation by an organisation and has a major influence on perceptions of it. It also has the major advantage of permitting recognition of the potential for conflict between the organisation as a financial entity and the organisation as a social or environmental entity" (p. 69).

It has been stressed that often the annual report is used as the only form of disclosure of social information in developing countries and that other forms of disclosure such as advertising, promotional leaflets and the internet are not of much use to such organisations (Abu-Baker and Naser, 2000). Hence the capture of information on CSD using the annual report as the main focus of disclosure has been widely employed in studies in the field of social and environmental accounting. This study is focused mainly on annual reports. This is because it is perceived that analysing a selection of annual reports, which is sometimes the only report provided by a company to the public, will provide an understanding of CSD in the KSA context. However, three companies in the sample also provided separate reports related to CSD so it seemed pertinent to also explore these disclosures.

#### **7.2.1.1 The Research Sample**

Listed companies on the Saudi Stock Exchange (which is called TADAWUL) represent the population for this research study. All companies listed on TADAWUL in 2012 (159 companies) comprise the population<sup>56</sup>. However, because of difficulties in obtaining their annual reports, 18 of the listed companies in 2012 had to be excluded from the analysis which resulted in a final sample of 141 companies working across 15 sectors (See Appendix 7.5). It was important to scrutinise all of the available annual reports for the companies listed on TADAWUL in order to provide as complete a picture as possible about CSD issues, such as the volume and type of information provided as well as comparing the findings between different sectors.

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<sup>56</sup> At the end of 2012 there were 159 companies listed on the Saudi Stock Market, but 2 of them were suspended from trading (namely, 1310- Mohammad Al Mojil Group Co.; 6080- Bishah Agriculture Development Co.) which resulted in 157 companies.

The researcher collected the sampled firms' annual reports through the TADAWUL website, since all companies must provide their annual reports to TADAWUL as well as other reports (e.g. statement of income, cash flow, and quarterly financial statements) at specific times (the end of the financial year), to avoid facing sanctions. The researcher also checked the companies' websites looking for further information such as whether companies provided a standalone social responsibility or sustainability report.

#### **7.2.1.2 Content and Format of Annual Reports**

It appears that a relatively common format exists for Saudi companies' annual reports. Even though there are minor exceptions and variations, it was found from reviewing the annual reports that they usually comprise a cash flow statement, a balance sheet, an income statement, a profit appropriation statement, a statement of changes in shareholders' equity, a Board of Directors report, an auditor's report, and notes to the financial statements. In addition, some companies provide a Chairman's Statement and some include a company's file section<sup>57</sup>.

The annual reports included variety in terms of their sizes with the number of pages ranging from 26 to 129 pages amongst the sampled companies. The presentation and appearance of the reports also differed. The majority (125) were typewritten and were consecutively numbered and then manually reproduced using duplication or photocopying machines. Sixteen reports were colour printed, neatly put together and bound with consecutively numbered pages; they were presented as a well prepared document to promote public relations. Thus, it was evident following the accumulation of annual reports that a specific standardised format for annual reports does not always exist in Saudi companies based on the

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<sup>57</sup> A company's file is a section of some companies' annual reports, where firms provide information about their activities and operations. It is an alternative name for a company's profile section.

number of pages, the appearance, and the sections presented in these documents. In addition, the majority of companies provided their reports in the Arabic language, and a small number of them (28 companies) provided their annual reports in both Arabic and English language<sup>58</sup> (for more information see Appendix 7.5).

In order to ensure the validity of applying the content analysis method to annual reports provided in the Arabic language (the majority of the sample), the researcher piloted the content analysis template for a small sample of companies (2 companies<sup>59</sup>) who provided their annual reports in both languages and then the results were compared. It revealed that the percentage of agreement between Arabic and English versions was almost 100% for the first company, whereas small differences were noted in the total percentage of agreement for the annual report of the second company (the amount of CSD was 1.4% in the Arabic report while it was 1.2% in the English report). Even though the number of disclosures for all categories was exactly the same, the difference occurred because the number of pages in the annual reports differed- 74 pages in the Arabic version and 86 pages in the English version.

### **7.2.2 Proportion of a Page as Coding Unit**

The coding unit, which is also known as the enumeration unit, determines the way the data is captured and measured (Unerman, 2000; Krippendorff, 2013). It could be based on the amount or volume of disclosure or the number or frequency of particular items of disclosure (Unerman, 2000). Gray et al. (1995b) argued that using the volume of disclosure is usually said to result in a richer data set.

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<sup>58</sup> In the main analysis, only the Arabic version of these (28) companies' documents were analysed.

<sup>59</sup> Two companies were chosen randomly from the sample companies which provided their annual reports in both languages, Arabic and English languages, from two different sectors. The first company is Mobile Telecommunication Company Saudi Arabia which operates in the Telecommunication and Information Technology sector, and the second company is Arab National Bank which works in the Banks and Financial services sector.

There are many methods to measure CSD by volume including: (i) by number of words (see, for example, Campbell, 2003; Campbell et al., 2003; Ahmad, 2004; Gao et al., 2005; Haniffa and Cooke, 2005; Aribi, 2009; Elmogla, 2009); (ii) number of sentences (see, for example, Deegan et al., 2002; Newson and Deegan, 2002; Elmogla, 2009; Taha, 2010); (iii) proportion of pages (see, for example, Gray et al., 1995a; Gray et al., 1995b; Dunne, 2003; Momin, 2006; Dunne et al., 2008; Crawford et al., 2009; Taha, 2010); or (iv) percentage of a document (see, for example, Gray et al., 1995a; Gray et al., 1995b; Dunne, 2003; Dunne et al., 2008; Crawford et al., 2009). According to Gray et al. (1995b), a suitable coding unit could make use of the proportion of a page reported for a specific topic. This is because in this way the amount of space devoted to a topic and by implication, the significance of the topic to the creator of the report is recognised (see also Deegan and Rankin, 1996; Milne and Adler, 1999; Dunne, 2003; Krippendorff, 2013). The discussion regarding the most appropriate coding unit for content analysis was summarised by Gray et al. (1995b) who believed that words, sentences and pages are the preferred units for analysing written communications. They state that:

"In essence, words have the advantage of lending themselves to more exclusive analysis (are categorised more easily) and have the pragmatic advantage that databases may be scanned for specified words. Sentences are to be preferred if one is seeking to infer meaning. Pages, however, tend to be the preferred unit as this reflects the amount of total space given to a topic and, by inference, the importance of that topic (see also Krippendorff, 1980). Pragmatically, pages are also the easier (and more reliable) unit to measure by hand" (Gray et al., 1995b, p. 84).

Interpretation of graphical content when it comes to margins, partially blank pages and font size can be problematic (Gray et al., 1995b; Tilt, 1997). However, using the proportion of a page is helpful in measuring information presented in graphical and tabular formats (which is widely used for CSD data). It would be hard to consider that information if it was decided to

adopt sentences or words as potential coding units. The volume of disclosure measured as the proportion of the page was employed in this research. This procedure is followed as it has been stated that it would not appear reasonable to remove any information presented in a form other than numbers and words if the size of the disclosure is said to be an indication of the significance of a specific topic (Gray et al., 1995b; Unerman, 2000; Krippendorff, 2013). Thus, the proportion of the page is used in this study to capture the volume of disclosure.

There is however some criticism against the usage of the proportion of a page measure. According to Milne and Adler (1999), the quality of information is typically not considered when measuring disclosure by using page proportion (via a grid) so there is some loss of information context. Quality assessment categorisations were employed by Gray et al. (1995b) to address this problem. These related to 'auditability', 'evidence' and 'news' categories. According to Gray et al. (1995b):

"Within the original database, disclosure was classified as "monetary quantitative" if it contained and was related primarily to financial disclosure of actual financial numbers; "other quantitative" if it contained and was primarily related to actual numbers of a non-financial nature; and "declarative" otherwise. In the continuing database, disclosure is further categorized as "auditable" if, given access to the organisation, it would be possible to confirm the statements" (p. 99).

Information which delivers a neutral, bad or good news meaning to the receiver comes under the heading of 'news'. This method, as used by Gray et al. (1995b), was influenced by the method that was carried out by Guthrie and Mathews (1985), and was also used in other subsequent studies (Dunne, 2003; Dunne et al., 2004; Dunne et al., 2008; Crawford et al., 2009), and is thus employed here.

### **7.2.3 Categories of Disclosure**

In order to guarantee independent, exhaustive and mutually exclusive categorisation of all information related to the disclosures under review, it is necessary to create clear decision rules linked to each category of disclosure (Gray et al., 1995a; Gray et al., 1995b; Unerman, 2000; Dunne, 2003; Krippendorff, 2013). These categories are a requirement of content analysis and for that, accurate classification and definition of categories of disclosure is required (Krippendorff, 2013). To satisfy Krippendorff's conditions for reliability, data collection and its examination should be capable of replication (Gray et al., 1995b). Also the categorisations should possess "shared meanings" (Gray et al., 1995b, p. 85). The standard for reliability means that in content analysis, the descriptions of what has to be examined should be accurate and mutually exclusive. For this reason, besides finding a set of categories which will describe CSD, there is a requirement for an objective definition of CSD. The objectivity criterion suggested by Krippendorff (2013) can be discharged because the CSD given by the categories that were formed should allow independent researchers to find out what is considered to be CSD and what is not. These categories that are formed are understood in relation to the topic being studied which is CSD. In this respect Gray et al. (1995b, p. 81) state that "the 'objectivity' criterion requires that independent judges would be able to identify similarly what was and was not CSR".

In content analysis, set themes were utilised that represent the primary and also mutually exclusive categories for CSD. Customers, employees, environment and society are the main themes used in the mainstream CSR literature (Mashat, 2005). These themes were used by Gray et al. (1995b), who also stated that a category known as 'other' is needed when a disclosure does not fall into one of the categories that were already described, even though it



is identified as a socially-motivated disclosure. Decision rules were formed with the objective of describing the content of these categories in more detail. A number of sub-categories were established which could feed into the main categories that were developed (see Appendices 7.1 and 7.2).

This study adopts the main categories provided by Gray et al. (1995b) such that it includes the main themes for CSR that the study is investigating within Saudi companies' disclosure. In order to be able to apply the decision rules (based predominantly on Gray et al. (1995b)) in the context of Saudi Arabia, some alterations were required so that these rules could be informed by the different context in which this study is conducted. Some sub-categories used by Gray et al. have been excluded as they were not deemed suitable for the Saudi context (for example, South Africa sub-category). In addition, disclosures that show a religious influence, for instance 'Zakat'<sup>60</sup> (which was added as a sub-category under the society category), is a type of disclosure that is pertinent in the context of Saudi and so is the main obvious variation to the aforementioned rules. The method created and developed by Gray et al. (1995b) is basically the one on which this research is founded with the exception of minor amendments.

#### **7.2.4 CSD Data Coding**

There is a requirement for the use of pre-samples in content analysis; these should preferably be derived from the same population as the main sample (Krippendorff, 2013). However, as all the listed companies whose annual reports were available were included in the study, it was necessary to look to the companies' annual reports in another year, and the year 2009 was chosen for the pre-sample of annual reports.

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<sup>60</sup> Zakat is a form of tax collected by a specific governmental agency (the Department of Zakat and Income) and given to poor and needy people.

In order to guarantee consistency, completeness and precision in the analysis of the annual reports, another researcher (in line with the recommendations of Milne and Adler (1999)) independently carried out a content analysis on a small sample of annual reports<sup>61</sup>. In this way, there was rigorous use of the research tool using the same decision rules and categories. Following the pre-analysis sample, some modifications of the decision rules proved to be essential. These modifications were necessary for the clarification of coders' decisions or in cases where categories were not mutually exclusive and some overlapping was observed. Pre-samples of annual reports were coded by the student and one of her supervisors during the pre-analysis stage whereby variations were noted and resolved. The final content analysis was initiated after there was a level of agreement among coders that was higher than 90%<sup>62</sup>. Consequently, in line with the in-depth decision rules that were formed in the pre-analysis stage, all of the 141 annual reports which comprised the final sample, were then coded according to the detailed decision rules devised in the pre-analysis stage.

In order to measure the volume of disclosure, the researcher used an A4 template that was divided into 100 cells of equal height and width (see Appendix 7.3). The A4 page was based on standard margins and divided into four columns and 25 rows, such that one cell was equivalent to one hundredth of a page. A transparent grid sheet was positioned over the relevant disclosure item (which could include captions, pictures or text) and the cells occupied by the disclosure were noted. The outcome was then taken as the proportion of the page occupied by this disclosure to two decimal points. In addition to the primary categories (customer, employee, environment and community), total CSD was also calculated. To make

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<sup>61</sup> One of the student's supervisors who was very familiar with the content analysis technique undertook the replication analysis.

<sup>62</sup> This agreement was calculated on the basis of agreement across 56 or so categories identified in the decision rules presented in Appendix 7.2. Krippendorff (2004) argued that if the percentage of agreement is equal to, or above, 90%, the researcher is justified to accept this variable as reliable.

the data more understandable, percentages and simple averages were calculated. The CSD data was first recorded for all companies using Microsoft Excel sheets (see Appendix 7.4) and then for more statistical analysis both Microsoft Excel and Minitab programmes were used. The next section will further provide detail on the analysis of the KSA annual reports.

### 7.3 Results of the Content Analysis

The empirical results of the content analysis can be utilised to describe CSD practices. This chapter reports on the results of the content analysis of CSD contained in companies' annual reports in order to investigate such practices in Saudi Arabia. Results for the overall level of CSD for the total sample are reported first, followed by the analysis of social disclosure within the main disclosure categories. The CSD results based on economic sector form the third subsection, which is then followed by an analysis of the nature of CSD. Then, the location of disclosure within the annual report is presented, followed by an analysis of separate sustainability and social responsibility reports. In order to illustrate the nature of the disclosure, some related examples are provided within these subsections which have been selected from the disclosure provided by typical Saudi companies.

#### 7.3.1 CSD Results for the Total Sample

**Table 7.1: CSD based on the Percentage of Annual Reports**

Category	Mean	Median	StDev	Minimum	Maximum
Environmental Disclosure	0.16	0.00	0.44	0.00	3.38
Employee Disclosure	2.13	1.74	1.20	0.14	6.76
Society Disclosure	1.77	1.64	0.95	0.22	7.10
Customer Disclosure	0.00	0.00	0.03	0.00	0.33
Other General Disclosure	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>4.06</b>	<b>3.38</b>	<b>2.62</b>	<b>0.36</b>	<b>17.57</b>

**Note:** The table shows the results of the content analysis of CSD for the whole sample as a percentage of the annual report based on the disclosure categories (environmental disclosure, employee disclosure, society disclosure, customer disclosure, and other general disclosure).

As can be seen in Table 7.1, column two presents the mean disclosure results for four disclosure categories - environmental, employee, society, and customer disclosures as used in, (for example, Guthrie and Parker, 1989; Gray et al., 1995a; Gray et al., 1995b; Pratten and Mashat, 2009; Bayoud et al., 2012a). A general other category is also included for completeness (as per Gray et al., 1995a; Gray et al., 1995b) but it is clear that disclosure was subsumed within the four primary categories. Column three displays the median figures of disclosure categories, and column four shows the standard deviation from the means for the disclosure categories listed. The last two columns (five and six) display the minimum and maximum disclosure for each category. The disclosure was measured in two ways; the percentage of the annual report was employed in Table 7.1, while the number of pages was counted and reported in Table 7.2. Figure 7.1 shows the proportion of disclosure for each category.

**Table 7.2: CSD based on the Number of Pages**

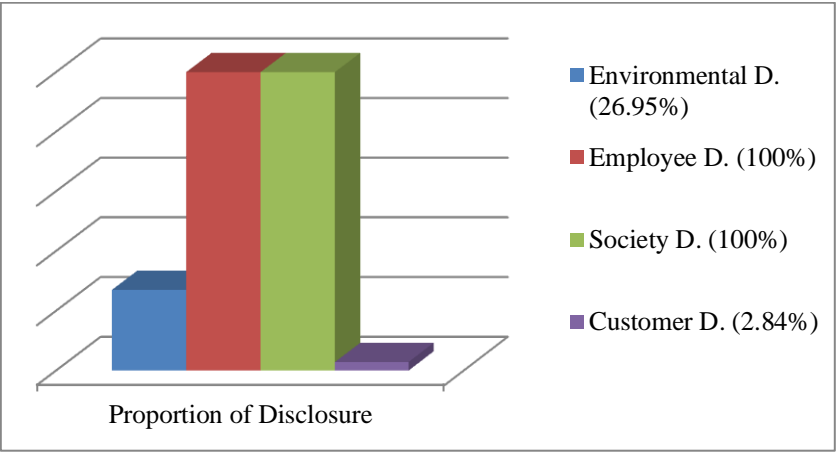
Category	Mean	Median	StDev	Minimum	Maximum
Environmental Disclosure	0.10	0.00	0.29	0.00	2.40
Employee Disclosure	1.15	0.93	0.75	0.08	4.04
Society Disclosure	0.95	0.88	0.80	0.12	8.31
Customer Disclosure	0.00	0.00	0.02	0.00	0.16
Other General Disclosure	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>2.20</b>	<b>1.81</b>	<b>1.86</b>	<b>0.20</b>	<b>14.91</b>

**Note:** The table shows the results of the content analysis of CSD for the whole sample as a number of pages of the annual reports based on the disclosure categories (environmental disclosure, employee disclosure, society disclosure, customer disclosure, and other general disclosure).

A number of points can be derived from an analysis of Tables 7.1 and 7.2. The employee disclosure category has the highest level of disclosure compared with the other disclosure categories; the mean (median) percentage of the annual report was 2.13 (1.74), and the mean (median) number of pages was 1.15 (0.93). This was mainly because all companies were undertaking some form of employee-related information disclosure. In contrast, the customer disclosure category recorded the lowest average level of disclosure compared with the other

categories with a mean (median) of 0.00 (0.00) based on both the percentage of the annual report and number of pages, which means that this category was accorded the lowest priority with regard to disclosure within the sample. The society category of disclosure occupied the second top level of disclosure, and the environmental disclosure category ranked as the third highest level of disclosure.

**Figure 7.1: Proportion of Companies Providing Disclosure across the Disclosure Categories**



**Note:** The figure shows the proportion of companies that disclosed the relevant information for each category (environmental disclosure, employee disclosure, society disclosure, and customer disclosure).

Figure 7.1 portrays the percentage of the number of companies that provide information across each category of disclosure. Both employee disclosure and society disclosure categories attract the most attention where the number of companies disclosing information about them was 141 (100% of the sample), regardless of the amount of the disclosure, while 38 companies (27%) provided environmental information, and only four companies (2.8%) disclosed customer information. As noted previously this can be explained by the companies providing some basic information on employee-related matters (such as *employment data, staff training and development, job opportunities and training, pension data, health and safety, and employee other*), and some basic society-related disclosure (such as *charity and donation, Zakat, and community other*). It is worth mentioning that some of this information

is required by law such as *employment data*, *pension data*, and *Zakat*). The next section details the analysis of CSD based on sub-categories of disclosure.

### **7.3.2 Social Disclosure within the Main Disclosure Categories**

This section illustrates and compares the amount and type of sub-categories of disclosure within the main four disclosure categories (environmental, employees, society, and customer) in companies' annual reports in 2012. The content analysis of companies' annual reports in this study contains 19 sub-categories of disclosure<sup>63</sup>. Under the main environmental category these sub-categories are *environmental*, *energy*, *sustainability*, and *environmental other*. All of *employment data*, *job opportunities and training*, *staff training and development*, *pension data*, *employment of disabled persons*, *consultation with employees*, *employees' share ownership*, *health and safety*, and *employee other* are captured under the main employee category. All of *charity and donation*, *Zakat*, and *community other* are detailed under the main society category, while *products and customer safety*, *customer complaints*, and *customer other* related disclosure rest within the main customer category. Table 7.3 provides more detail regarding the total disclosure provided by companies for each sub-category of disclosure used in this study.

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<sup>63</sup> A list of information included under each sub-category of disclosure is provided in Appendix 7.2.

**Table 7.3: Total Disclosure by Companies for each Sub-Category of Disclosure**

Category of Disclosure	No. of Companies	Mean	Median	StDev	Min	Max
<b>Environmental Disclosure</b>						
Environment	25	0.05	0.00	0.19	0.00	1.83
Energy	5	0.01	0.00	0.05	0.00	0.60
Sustainability	9	0.02	0.00	0.11	0.00	1.22
Environmental other	19	0.03	0.00	0.11	0.00	0.99
<b>Employee Disclosure</b>						
Employment data	137	0.75	0.67	0.38	0.12	2.48
Job opportunities and training	51	0.05	0.00	0.13	0.00	1.14
Staff training and development	68	0.08	0.00	0.19	0.00	1.63
Pension data	107	0.05	0.04	0.04	0.00	0.20
Employment of disabled persons	5	0.00	0.00	0.04	0.00	0.45
Consultation with employees	0	0.00	0.00	0.00	0.00	0.00
Employees' share ownership	11	0.04	0.00	0.20	0.00	1.54
Health and safety	30	0.04	0.00	0.12	0.00	0.80
Employee other	55	0.15	0.00	0.30	0.00	1.45
<b>Society Disclosure</b>						
Charity and donation	44	0.05	0.00	0.17	0.00	1.70
Zakat	141	0.72	0.70	0.35	0.06	2.18
Community other	63	0.19	0.00	0.57	0.00	5.78
<b>Customer Disclosure</b>						
Product and customer safety	0	0.00	0.00	0.00	0.00	0.00
Customer complaints	1	0.00	0.00	0.00	0.00	0.02
Customer other	3	0.00	0.00	0.01	0.00	0.16

**Note:** The table shows the results of the content analysis of CSD for the whole sample as a number of pages of the annual reports based on the sub-categories of disclosure (19 sub-categories), as well as providing the numbers of companies disclosing information related to each disclosure sub-category.

Amongst their main disclosure categories, as can be seen from Table 7.3, the *environment*, *employment data*, *Zakat*, and *customer other* sub-categories have attained the highest level of attention by companies in terms of the volume of disclosure related to them, with means of 0.05, 0.75, 0.72 and 0.00, respectively. It is also noticed that the most importance space allocation for a sub-category of CSD is allocated to *employment data*. On the other hand, *energy*, *consultation with employees*, *charity and donation*, and *product and customer safety* have received the lowest level of disclosure amongst their main disclosure categories; the means were 0.01, 0.00, 0.05 and 0.00 respectively<sup>64</sup>. None of the companies in the sample

<sup>64</sup> Although the mean regarding the *employment of disabled persons* was 0.00 as was the mean regarding the *consultation with employees* sub-category, the latter was highlighted as the category with the lowest amount of disclosure because no company disclosed any information about the *consultation with employees*, while some companies (five) disclosed some information about the *employment of disabled people* with the maximum

reported any information in the *consultation with employees* sub-category, and the *product and customer safety* sub-category in their annual reports, which put these categories very low down in terms of the perceived level of importance accorded to such matters among the companies sampled. Although providing information about the *product and customer safety* and other information related to customers - who are considered one of the powerful and primary stakeholders who can affect companies' continuity and success (see Chapter 5, Section 5.3) - is considered important, the lack of such information provided by Saudi listed companies might be due to management not expecting customers within the Saudi context to consult annual reports.

The following subsections provide more detail and discussion about the sub-categories of disclosure under the main four categories used in this study, as well as providing some typical examples of CSD.

### **7.3.2.1 Environmental Disclosure**

Environmental disclosure is divided into four sub-categories: *environment*, *energy*, *sustainability*, and *environmental other*<sup>65</sup>. In general, as indicated in Table 7.1, the environmental disclosure category received the second lowest volume of total disclosure; only 38 companies (27%) of the sample provided related information in their annual reports. In addition, Table 7.5 Panel A (see section 7.3.3) indicates that companies operating in ten sectors (66.67%) did report different amounts of environmental information, while

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amount of disclosure (0.45 pages). The situation is repeated again with the *products and customers' safety* category and *customer complaints* category; the mean disclosure was 0.00 for both of them, but one company provided information related to the *customer complaints* category which is 'Alujain Corporation' where the amount of disclosure was 0.02 pages. No company provided any information about the *product and customers' safety* category; for this reason, the last one has been assigned as the sub-category with lowest level of disclosure in the main customer category.

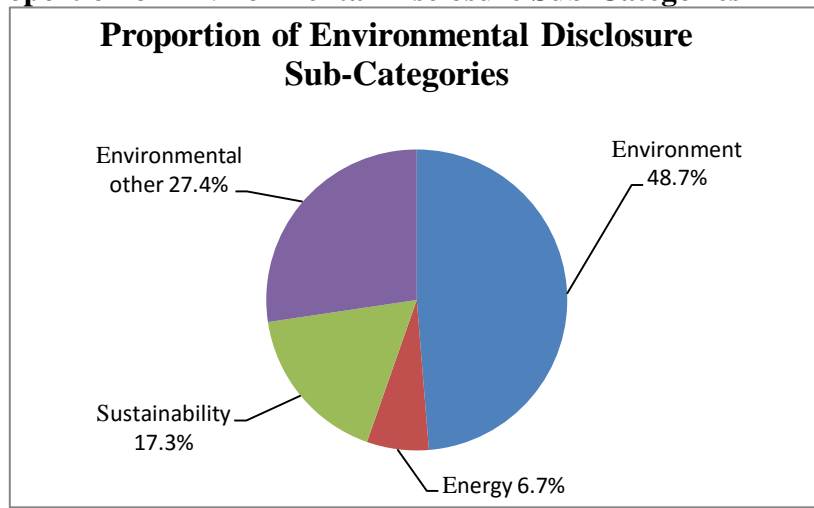
<sup>65</sup> A list of information included under each sub-category of disclosure is provided in Appendix 7.2.



companies operating in five sectors (33.33%) mentioned no related information in their annual reports.

From Table 7.3, it is evident that disclosure under the *environment* sub-category is the highest within environmental disclosure category with a mean of 0.05, while the *energy* sub-category was accorded the lowest priority in terms of the amount of disclosure within this category with a mean of 0.01. This may show a ranking of perceived importance to the companies but must be qualified by noting the number of the sample disclosing in each category. However, the results of the number of companies that disclosed such related information showed that 25 companies (17.7%) of the total sample did disclose some *environment* sub-category information, whereas only five companies (3.5%) of the total sample disclosed some information related to *energy*.

**Figure 7.2: Proportion of Environmental Disclosure Sub-Categories**



**Note:** The figure shows the proportion of environmental disclosure sub-categories (environment, energy, sustainability, and environmental other) based on the number of pages disclosed for each sub-category in companies' annual reports in 2012.

In addition, Figure 7.2, which shows an overview of the relative space devoted to each sub-category of environmental disclosure (based on the number of pages of disclosure in companies' annual reports), demonstrates that more space was devoted to the *environment*

sub-category which assumed significance with 48.7% of the total environmental disclosure, while only 6.7% was allocated to the *energy* sub-category. Examples of such disclosures are provided:

### **Environment**

"The company continuously takes into consideration the required regulations when buying the medical systems and equipment which will be used. These regulations will guarantee that no environmental damage will occur. In addition to this, they make sure that medical waste will be managed in accordance with the requirements stipulated in the system<sup>66</sup>".  
(Mouwasat Medical services company, 2012)

### **Energy**

#### **Waste Heat Recovery (WHR)**

"In accordance with the instruction given to the government by the Custodian of the Two Holy Mosques, King Abdullah bin Abdul-Aziz Al Saud - May God bless him - to promote using alternative energy to go along with the international effort to preserve the environment through minimising the emitted gases and reducing the consumption of traditional energy, the company's Board of Directors signed a contract with a Chinese company (SONOMA) on 13/11/2012 to start the project of Waste Heat Recovery. The total budget of the project is 168,000,000.00 (One hundred and sixty eight million Saudi Riyals, and the project is supposed to be finished by the end of August 2013 where the project should be up and running according to the signed contract. This contract is considered as one of the biggest WHR projects in the world<sup>67</sup>".  
(Najran Cement Company, 2012, p. 12).

Both the *sustainability* and *environmental other* sub-categories were in the middle with nine and 19 companies respectively disclosing information related to them. Typical examples of such disclosures are presented below.

### **Sustainability**

Efficient, sustainable operations:

"We work constantly to improve sustainability. Footprint analyses have identified focus areas such as flare reductions. We have now begun a

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<sup>66</sup> This example is translated from the Arabic version of the company's annual report by a certified translation office in the UK.

<sup>67</sup> This example is translated from the Arabic version of the company's annual report by a certified translation office in the UK.

second round of assessments to address total energy consumption. One focus area is the optimization of fuel gas, and diverting saved gas to produce higher-value products for new downstream products. Our overall energy efficiency performance is in line with the global industry. As an industry leader, SABIC seeks innovative ways to optimize fossil-fuel use while diversifying to alternative fuels as they become viable" (SABIC, Saudi Basic Industries Corporation, 2012, p. 55).

#### **Environmental other**

"SISCO Company sponsored the Environment and Sustainable Development Forum which was held in March 2012 (Silver sponsor). This shows that SISCO is paying attention to the environmental aspects and social responsibilities in Saudi Arabia<sup>68</sup>" (Saudi Industrial Services, 2012, p. 8).

Overall, the level of environmental disclosure is considered poor with only 14.7 pages noted for the total sample and only 27% of companies in the sample reporting some environmental information centred on the two aforementioned sub-categories, together accounting for 76.1% of the total environmental disclosure. In addition, most of the related disclosure tended to be qualitative and of a ‘good news’ nature (see Section 7.3.4.1).

Keeping these considerations in mind, it can be inferred that companies might not be concerned with this topic. A lack of statutory disclosure requirements and an absence of demand for such information, in addition to a lack of pressure groups that forced companies to reveal such information (see Chapter 3), are likely reasons that suggest why these organisations do not accord importance to such environmental disclosure. It was not anticipated that Saudi Arabia, which is a developing country, would provide environmental disclosure to the same degree as developed countries. In addition, as will become evident in Chapters 8, some companies have just started adopting some forms of this responsibility, and the lack of governmental requirements regarding this topic does not help in improving the

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<sup>68</sup> This example is translated from the Arabic version of the company’s annual report by a certified translation office in the UK.

position of CSR and disclosure and pushing it forward. It has been asserted that when there is a lack of demand, and when laws pertaining to information provision are not implemented, then businesses may not give high priority to revealing high-quality information, including information contained in CSR (Haniffa and Cooke, 2002). It would also be fair to assume that various national issues and priorities are going to be apparent in public and institutional pressure for giving reports pertaining to CSR (Gray and Kouhy, 1993).

### **7.3.2.2 Employee Disclosure**

Employee-related information disclosure is often one of the most popular categories in CSD (see, for example, Guthrie and Parker, 1990; Adams et al., 1995; Hackston and Milne, 1996; Hanafi, 2006; Aribi, 2009), and many different types of related information could be disclosed under this category. The category in this study includes nine sub-categories of disclosures: (i) *employment data*; (ii) *job opportunities data*; (iii) *staff training and development*; (iv) *pension data*; (v) *employment of disabled persons*; (vi) *consultations with employees*; (vii) *employees' share ownership*; (viii) *health and safety*; and (ix) *employee other category*<sup>69</sup>. Employee disclosure has the highest amount of CSD compared with other categories<sup>70</sup>, and this could be the result of government concern about improving the standard of life and working conditions of employees (Abu-Baker and Naser, 2000).

All companies in the sample disclosed information related to some types of employee disclosure sub-categories. Table 7.3 indicated that the *employment data* sub-category recorded the highest amount of disclosure compared with other sub-categories within the employee disclosure, with a recorded mean of 0.75 pages of disclosure. 137 companies

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<sup>69</sup> A list of information included under each sub-category of disclosure is provided in Appendix 7.2.

<sup>70</sup> This finding is consistent with previous studies which reveal the popularity of employee disclosure (see, for example, Guthrie and Parker, 1990; Adams et al., 1995; Gray et al., 1995a; Hackston and Milne, 1996; Imam, 2000; Belal, 2001; Mashat, 2005; Hanafi, 2006; Aribi 2009; Elmogla, 2009).

(97.2%) of the total sample disclosed information in this sub-category; this means there is a great recognition of, and concern over, the issues classified under this sub-category among the whole sample. The vast majority of this information related to ‘the Board of Directors’ salaries and remunerations’, ‘statutory disclosure of directors’ emoluments’, employees’ salary, and employees numbers. A typical example of employment data is presented next:

### Employment Data

"Salaries and employee related expenses: The following table summarize the Bank's employee categories defined in accordance with SAMA's<sup>71</sup> rules on composition practices" (Alinma Bank, 2012, p.55).

SAR000											
Categories of employees	of	Number of employees		Fixed compensation		Variable Compensation paid					
		2012	2011	2012	2011	Cash		Shares		Total	
		2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Senior executives requiring SAMA no objections		14	13	24,595	18,194	7,566	5,962	-	-	7,566	5,962
Employees engaged in risk taking activities		326	224	103,972	84,675	14,584	13,348	-	-	14,584	13,348
Employees engaged in control functions		107	95	37,917	27,654	4,703	3,370	-	-	4,703	3,370
Other employees		1,105	1,077	215,323	217,039	25,682	32,224	-	-	25,682	32,224
Outsourcing employees (engaged in risk taking activities)		-	-	-	-	-	-	-	-	-	-
		1,552	1,409	381,807	347,562	52,535	54,904	-	-	52,535	54,904
Variable compensation accrued				66,759	87,365						
Other employee related benefits				23,695	10,642						
<b>Total</b>		<b>1,552</b>	<b>1,409</b>	<b>472,261</b>	<b>445,569</b>	<b>52,535</b>	<b>54,904</b>	<b>-</b>	<b>-</b>	<b>52,535</b>	<b>54,904</b>

(Alinma Bank, 2012, p.55).

A great deal of disclosure within the employee category is also dedicated to the *employee other* sub-category (as a ‘catch everything else’ category) where the mean pages of disclosure being 0.15 and 55 companies (39%) of the total sample disclosed related information. An example for such information is provided:

"Sipchem held its third annual ceremony to honour its employees who completed five or ten years in continuous service in November 2012 with more than 103 employees being honoured"  
(Saudi International Petrochemical Corporation, 2012, p. 48).

<sup>71</sup> SAMA refers to Saudi Arabian Monetary Agency.

The *staff training and development* sub-category came next with the mean pages of disclosure being 0.08 and 68 companies, 48.2% of the total sample, disclosed related information. An example of such information is presented below:

"In 2012 Sipchem implemented 438 training programs in collaboration with internal and external entities with the aim of increasing employees' efficiency and capabilities. 2,559 employees have benefited from these programs. The training plan for 2013 has been prepared with 330 training programs in various technical and administrative fields. It is expected that the actual training programs may be increased to 400 to meet emergent development and training needs"  
(Saudi International Petrochemical Corporation, 2012, p. 48).

This is followed by both the *job opportunities and training* sub-category and the *pension data* sub-category where 0.05 mean pages of disclosure were recorded. Fifty-one and 107 companies respectively (36.2%, 75.9% of the total sample) provided such information. Examples of such disclosures are provided below:

#### **Pension Data**

A statement of the due official payments for the year 2012, along with the description and the reason for each payment:			
Statement	2012-Saudi Riyal	Description	Reason
<b>Social Insurance</b>	1.828.642	They have been paid - in full - in accordance with the rules of the General Organisation of Social Insurance in the KSA	Official requirement
<b>Governmental fees</b>	336.131	Fees for getting building license and issuing or renewing visas, in addition to the fees for joining the Chamber of Commerce, and other things (paid in full)	Official requirement
<b>Almsgiving (Zakat)</b>	5.045.957	They have been paid - in full - in accordance with the Zakat Law and the rules of the Department of Zakat and Income Tax	Official requirement

(Dar Alarkan Real Estate Development Company, 2012, p. 43)<sup>72</sup>.

#### **Job opportunities and training**

"Aiming to attract more Saudi talent to contractor roles, by Q3 2012 SABIC had already increased the percentage of Saudis working with contractors from 10% in 2011 to 17%. With the ultimate goal of employing Saudi nationals in 5,000 SABIC contractor roles that are currently held by non-

<sup>72</sup> This example is translated from the Arabic version of the company's annual report by a certified translation office in the UK.

Saudis, the project involves both training and development initiatives for Saudi youth and the creation of exclusive job opportunities for Saudi nationals. Three groups of trainees, totalling 813 individuals, are currently enrolled in the program, which is scheduled to reach its target by 2018" (SABIC, Saudi Basic Industries Corporation, 2012, p. 67).

Far less significance is devoted to three sub-categories; for the *health and safety* sub-category, *employees' share ownership* sub-category, and for *employment of the disabled* sub-category. 30 (21.3%) and 11 (7.8%) companies respectively disclosed about the first two sub-categories, and only five companies (3.5%) of the total sample mentioned information related to the last sub-category.

Examples of disclosure related to these sub-categories are provided next:

#### **Health and safety**

"The company pays much attention to the security and safety of its staff, buildings and produced materials throughout all operational activities inside its stations. This is done through following the newest safety and health procedures related to work, in addition to adhering to the measures of the Highest Committee in the Ministry of Interior, and those of the National American Associations for Firefighting. In addition to this, the company follows the procedures of the Occupational Safety and Health Administration of the United States' Ministry of Justice (OSHA). Thus, no complicated work injury happened in the previous year because of stressing safety, and holding training programs for its staff in the fields of safety, security, firefighting and first aid. The work continued to enhance the abilities in the field of industrial safety administration in the year 2012 so that to achieve the vision of the administration and to help the company provide the perfect environment for all employees".

(National Gas and Industrialisation Company, 2012, p. 14).

#### **Employees' share ownership**

"The Board of Directors has approved implementation of an employee share ownership plan (ESOP) which provides 800 shares to eligible employees at the end of a 5-year maturity period. To implement this, the Company arranged with a commercial bank to subscribe for 1.5 million shares during the IPO period at the offer price of SR 21 per share. These ESOP shares are managed by Riyadh Capital under an open ended mutual fund which has offered to subscribe and hold such shares "on trust" for the employees as part of an Administrative Service Agreement. These shares,

as service awards to employees, are amortized evenly over a period of five years and allocated to eligible employees until the vesting period has been fully met.

In 2011 the company purchased 25,128 shares at the price of SR 22.75 which were added to the program in order to meet the increase in hiring.

As of the end 2012, a total of 1,819 employees have joined the shares ownership Incentive Program, and a total of 9,493 shares were allocated to 14 terminated employees"

(Rabigh Refining and Petrochemical Company, 2012, p. 22).

### **Employment of disabled persons**

"The Savola Center for Empowering People with Disability (Makeen): The Center was established to train and employ people with disabilities and assist them in securing appropriate jobs whether, in the Group's Operating Companies or in the private sector. In 2012, the Center trained and employed 120 people with disabilities within the Group and other entities in the private sector. Makeen Center has an ambitious plan to train and employ 200 people during 2013, Inshallah. The Center was able to accommodate 306 people into the Makeen Pilot Program during the past two years"

(Savola Group, 2012, p. 58-59).

No companies in the sample provided any information related to the *consultation with employees'* sub-category in their annual reports. This might point to a ranking of low perceived importance; however, eight sub-categories out of nine for the employee disclosure category included some disclosure which might reflect the overall priority given to employee-related information by Saudi firms.

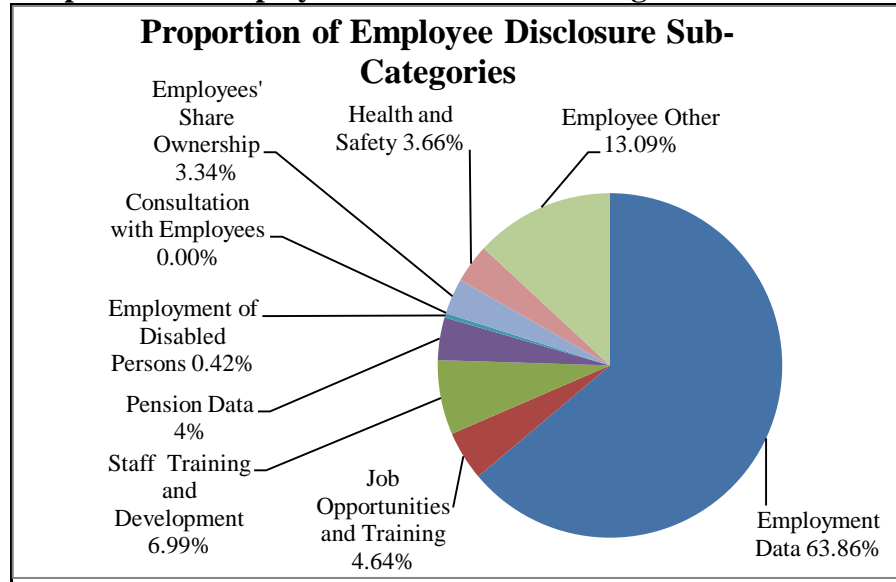
As can be seen from the examples provided throughout this section, the majority of the information provided is factual in its orientation and often quantifies information. More discussion about the nature of disclosures will be provided in section 7.3.4.

Figure 7.3 illustrates the proportion of employee disclosure sub-categories based on the number of pages disclosed for each sub-category in companies' annual reports in 2012. The figure confirmed the results presented in Table 7.3 regarding the allocated space for each sub-



category within the overall employee category. Panel B of Table 7.5 illustrates that the largest volume of information within this category comes from firms within the energy and utilities sectors, followed by those in the banks and financial services sector, then the petrochemical industries sector.

**Figure 7.3: Proportion of Employee Disclosure Sub-Categories**



**Note:** The figure shows the proportion of employee disclosure sub-categories (employment data, job opportunities and training, staff training and development, pension data, employment of disabled persons, consultation with employees, employees' share ownership, health and safety at work, and employee other) based on the number of pages disclosed for each sub-category in companies' annual reports in 2012.

### 7.3.2.3 Society Disclosure

This category of disclosure is considered the second highest in popularity after the employee disclosure category, as can be seen by the results relating to total disclosure provided by the sampled firms in this study (see Tables 7.1 and 7.2). According to Aribi (2009, p. 129), a "high level of disclosure in this category might be a good opportunity for companies to portray themselves as good citizens in their societies". In addition, Islamic influence might be another important reason that prompts companies to be more socially responsible and to disclose societal information. A major role in shaping relationships in Saudi society, as an Islamic society, is played by Islamic law, which urges members (Muslims) to take an active

and supportive role in their society (Mashat, 2005). The Prophet Mohamed (PBUH) emphasises a strong relationship in an Islamic society; for example, the Prophet Mohamed (PBUH) said in one Hadith<sup>73</sup>:

"The believers in their mutual kindness, compassion and sympathy are just like one body. When one part of the body suffers, the whole body suffers" (Albukhari, 2005).

In another Hadith, the Prophet Mohamed (PBUH) described the relationship in Islamic society as:

"The relationship of the believer with another believer is like (the bricks of) a building, each strengthens the other". He (PBUH) illustrated this by interlacing the fingers of both his hands" (Albukhari, 2005).

The disclosure in this category often described activities undertaken by companies, related to philanthropic matters. It covered three disclosure sub-categories; (i) *charity and donation*; (ii) *Zakat*<sup>74</sup>, and (iii) *community other*, which includes any other community-related information<sup>75</sup>.

All companies (and accordingly all economic sectors) did disclose some volume of information related to some of these sub-categories (see Table 7.5 Panel C). This means that this category is getting a good amount of attention by companies as mentioned before. Table 7.3 illustrates that 44 companies (31.2%) of the total sample disclosed information related to the *charity and donation* sub-category where 0.05 mean pages of disclosure were recorded, 63 companies (44.7%) provided information related to the *community other* sub-category where 0.19 mean pages of disclosure were recorded, while all companies in the sample

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<sup>73</sup> Sayings of the Prophet Mohamed (PBUH).

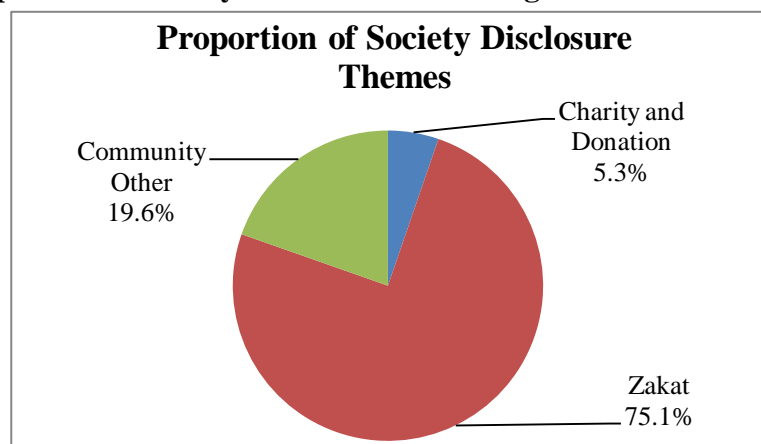
<sup>74</sup> Zakat means alms-giving which is to collect religious tax at a minimum rate of two and a half per cent of total money or assets at the end of every year and this money goes towards needy people. As per law, it is the duty of all Saudi companies to pay Zakat and also on the Saudi share of profits from enterprises that are in partnership with foreign investors; however those which have less than £800 can be ruled out (Alkhtani, 2010).

<sup>75</sup> A list of information included under each sub-category of disclosure is provided in Appendix 7.2.

(100%) reported information about the *Zakat* sub-category with a recorded mean of 0.72 pages of disclosure. The disclosure about Zakat represents the largest volume of disclosure in this category; all companies in Saudi Arabia are required to disclose information related to the amount of Zakat they paid (in Saudi Riyals) and discuss how it is calculated which is perhaps considered as the main reason behind the significance of the disclosure amount in this sub-category which drives the whole category level of disclosure.

Figure 7.4 shows the proportion of society disclosure sub-categories. As can be seen it is evident that the results are the same as those provided in Table 7.3; the *Zakat* sub-category showed the largest number of pages of disclosure by companies with 75.1%, followed by the *community other* sub-category with 19.6%, and the *charity and donation* sub-category with 5.3% of pages disclosure.

**Figure 7.4: Proportion of Society Disclosure Sub-Categories**



**Note:** The figure shows the proportion of society disclosure sub-categories (charity and donation, Zakat, and community other) based on the number of pages disclosed for each sub-category on companies' annual reports in 2012.

An example of Zakat disclosure is provided below:

"Zakat is provided in accordance with the Regulations of the Department of Zakat and Income Tax (DZIT) in the Kingdom of Saudi Arabia and on an accrual basis. The provision is charged to the consolidated statement of income. Differences, if any, resulting from the final assessments are

adjusted in the year of their finalization. Foreign shareholders in subsidiaries are subject to income tax in the Kingdom of Saudi Arabia, which is included in minority interest in the consolidated financial statements"

(SABIC, Saudi Basic Industries Corp, 2012, p. 78).

The *charity and donation* sub-category of disclosure covered donations (in Saudi Riyal or in kind) to charities or poor families as well as donations that were made by/through employees, and the provision of financial and other help to needy people. Some examples of this disclosure are provided below:

"The Bank also sponsored the Zahra Breast Cancer campaign for the fifth year running to help spread awareness about the importance of early screening in fighting the battle against breast cancer. The Bank also sponsored the development of websites for both of Al-Nahda and Mowada charities to help spread their message among members of society.

As part of the Bank's commitment to support special needs programs, it sponsored the annual "Special Needs Summer Club" for the sixth year in a row, to help children with special needs to spend constructive fun time in an environment that encourages learning and provides entertainment. In this regard, the Bank also participated in the first agricultural training program at the ALAHSa disabled association in the Al-Ahsa, which included teaching these people farming skills to be able to earn a living and become active members of society"

(Riyad Bank, 2012, p. 42).

"Tasneea Company donated 3.5 million Saudi Riyals to 180 charities. Tasneea Company donated 3.5 million Saudi Riyals to support charity activities inside Saudi Arabia. This support covered charities, aid and health organisations, rehabilitation for prisoners, enlightenment offices, Saudi communities abroad, school for teaching the Quran in 13 areas in the Kingdom<sup>76</sup>"

(National Industrialisation Company, 2012, p.67)

The *community other* sub-category of disclosure contains any reference to community and/or social involvement outside the labour force. These include social activities support and sponsorship such as schools, arts, and sport, religious activities for the community (for

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<sup>76</sup> This example is translated from the Arabic version of the company's annual report by a certified translation office in the UK.

example the provision of transport services for pilgrims in the Hajj and Umrah seasons), and employee involvement with the above if company support is apparent. An example of community other disclosure is provided here:

"In a humanitarian gesture, the Company also responded to the directives of the Custodian of the Two Holy Mosques King Abdullah Bin Abdul Aziz to open its channels for the donation campaign to support the people of Syria in August 2012. The campaign achieved resounding success. It helped STC customers provide their donations which amounted to SR 22.182.080 million through official channels to reach officials to deliver them to the beneficiaries in order to alleviate their distress. STC enabled people to communicate and perform good deeds in the simplest and easiest manner" (Saudi Telecom Company, 2012, p. 32).

#### **7.3.2.4 Customer Disclosure**

Customer disclosure was classified under three sub-categories comprising (i) *product and customer safety*; (ii) *customer complaints*; and (iii) *customer other*<sup>77</sup>. In general, from the tables and graphs, and comparison with other disclosure categories, it can be noticed that disclosures about customer information were very low or even non-existent particularly when compared with employee and society disclosure categories. This category has the lowest disclosure rate among the study sample (see Tables 7.1 and 7.2). Based on the results of Table 7.3, just two of the customer disclosure sub-categories (*customer complaint* and *customer other*) were used by firms in the study with only four companies (2.8%) providing information on these matters. Only one company disclosed information about *customer complaints*, while three companies disclosed information in the *customer other* sub-category<sup>78</sup>. One hundred and thirty-seven companies (97.2%) of the total sample operating in 13 economic sectors did not disclose any information related to the customer category. This

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<sup>77</sup> A fuller list of information included under each sub-category of disclosure is provided in Appendix 7.2.

<sup>78</sup> Only one company called 'Alujain Corporation' operating in the petrochemical industry sector disclosed information about *customer complaints*, while three companies (two operating in the banks and financial services sector namely; 'Riyad Bank' and 'Samba Financial Group', and one operating in the petrochemical industries sector called 'Methanol Chemicals Company') disclosed information in the *customer other* sub-category.

clearly indicates the low priority given to the disclosure of customer information among sampled firms in Saudi Arabia. None of the companies provided *product or customer safety*-related information. An example of customer other disclosure is reproduced:

"Several courses and meetings have been held to educate and discuss views with clients, in addition to measuring the level of clients' satisfaction on regular bases<sup>79</sup>"  
(Methanol Chemicals Company, 2012).

This section provided an analysis of CSD provided by Saudi companies based on the sub-categories of disclosure. The next section presents an analysis of CSD by Saudi companies based on economic sector.

### **7.3.3 Analysis by Sector**

In this section, the overall results of CSD by sectors operating in Saudi Arabia are presented; then the results of the main disclosure categories are outlined according to the different economic industries. These analyses have been conducted to determine if there are any differences in the type and the amount of disclosure provided by particular economic industries. There are 15 economic sectors<sup>80</sup> with different numbers of companies operating in each of them in 2012 (see Appendix 7.5).

Table 7.4 provides the overall results for CSD for the 15 economic sectors in 2012. Column one presents the name of the economic sector, and column two indicates the number of companies operating in each sector which were included in the content analysis sample. Column three (four) shows the mean (median) number of pages disclosure for each sector.

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<sup>79</sup> This example is translated from the Arabic version of the company's annual report by a certified translation office in the UK.

<sup>80</sup> The list of sectors provided in Table 7.4 is according to TADAWUL, which includes all economic sectors working on the Saudi Stock Market.

Column five presents the standard deviation from the mean, and the last two columns provide the minimum and maximum amounts of overall CSD for each sector.

**Table 7.4: Total CSD by Sector**

Sector	No. of companies	Mean	Median	StDev	Min	Max
1- Banks and Financial Services	11	2.55	2.04	1.09	1.03	3.96
2- Petrochemical Industries	14	3.35	3.07	2.28	1.21	10.16
3- Cement	11	2.23	1.97	0.92	1.04	4.20
4- Retail	10	2.26	2.16	0.86	1.10	4.07
5- Energy and Utilities	2	2.97	2.97	0.99	2.27	3.67
6- Agriculture and Food Industries	14	2.16	1.66	1.77	0.78	7.73
7- Telecommunications and Information Technology	3	4.11	2.24	3.60	1.82	8.26
8- Insurance	28	1.73	1.76	0.58	0.59	2.69
9- Multi-investment	7	1.27	1.26	0.34	0.63	1.70
10- Industrial Investment	13	1.74	1.57	0.69	0.99	3.56
11- Building and Construction	15	2.41	2.10	1.14	0.71	5.17
12- Real Estate Development	5	1.74	1.75	0.58	1.12	2.34
13- Transport	3	1.73	1.64	0.78	0.99	2.55
14- Media and Publishing	2	1.24	1.24	0.53	0.86	1.61
15- Hotel and Tourism	3	2.25	1.94	1.05	1.38	3.42

**Note:** The table shows the results of CSD for the whole sample as a percentage of pages of the annual reports based on 15 different sectors.

A number of points emerge from a visual inspection of Table 7.4. First, it is clear that all sectors show some level of CSD information with differences in the amount of disclosure evident between them. On the one hand, the mean amount of total disclosure by companies operating in the telecommunications and information technology sector (three companies) was found to be significantly higher than the mean amount of total disclosure by companies in the other sectors where the mean (median) was 4.11 (2.24). They recorded a minimum amount of disclosure of 1.82 pages (provided by ‘Etihad Etisalat Company’) and a maximum amount of 8.26 pages (provided by ‘Saudi Telecom Company’) in their annual reports<sup>81</sup>. The petrochemical industries sector (comprising 14 companies) attained the second highest level of disclosure with a mean (median) of 3.35 (3.07). They recorded a minimum amount of

<sup>81</sup> However, it is important to notice that the high mean is mainly due to a very high figure for one company among a small number of companies (only three companies listed within this sector).

disclosure of 1.21 pages (provided by ‘National Petrochemical Company’) and a maximum amount of 10.16 pages (provided by ‘National Industrialization Company’) in their annual reports. The high level of CSD provided by firms in the petrochemical industry might be due to the nature of the working environment (these firms primarily operate in the desert), and the associated importance attached to workforce, community and environmental matters in that context. Furthermore, firms in this sector are typically viewed as being ‘environmentally sensitive’ and have been reported as using disclosure as a means of legitimating their behaviours (Patten, 1992).

On the other hand, companies operating in the media and publishing sector (two companies) were found to have the lowest total amount of disclosure compared with companies in the other sectors, where the minimum amount was 0.86 pages (provided by ‘Saudi Research and Marketing Group’) and the maximum amount was 1.61 pages (provided by ‘Saudi Printing and Packaging Company’) in their annual reports. Companies operating in the multi-investment sector (seven companies) showed the second lowest level of total disclosure between sectors. The minimum amount of disclosure contained in their annual reports was 0.63 pages (provided by ‘Kingdom Holding Company’) and the maximum amount was 1.70 pages (provided by ‘Aseer Trading, Tourism and Manufacturing Company’) in their annual reports.

Table 7.5 breaks the analysis down further by presenting disclosure information for each of the overall disclosure categories by industry sector. It comprises four panels: Panel A - environmental disclosure, Panel B - employees’ disclosure, Panel C - society disclosure, and Panel D - customer disclosure. Column two (three) displays the mean (median) number of pages disclosure for each sector. Column four presents the standard deviation from the mean



for each disclosure category, and the last two columns provide the minimum and maximum amount of the disclosure category in the total sample.

**Table 7.5: Disclosure by Sector**

**Panel A: Environmental Disclosure**

SECTOR	ENVIRONMENTAL DISCLOSURE				
	MEAN	MEDIAN	STDEV	MIN	MAX
1- Banks and Financial Services	0.11	0.00	0.37	0.00	1.22
2- Petrochemical Industries	0.30	0.21	0.30	0.00	0.86
3- Cement	0.24	0.22	0.28	0.00	0.74
4- Retail	0.11	0.00	0.31	0.00	0.99
5- Energy and Utilities	0.00	0.00	0.00	0.00	0.00
6- Agriculture and Food Industry	0.01	0.00	0.02	0.00	0.06
7- Telecommunication and Information Technology	0.80	0.00	1.39	0.00	2.40
8- Insurance	0.00	0.00	0.01	0.00	0.04
9- Multi-Investment	0.01	0.00	0.02	0.00	0.06
10- Industrial Investment	0.02	0.00	0.03	0.00	0.08
11- Building and Construction	0.10	0.00	0.22	0.00	0.83
12- Real Estate Development	0.00	0.00	0.00	0.00	0.00
13- Transport	0.00	0.00	0.00	0.00	0.00
14- Media and Publishing	0.00	0.00	0.00	0.00	0.00
15- Hotel and Tourism	0.00	0.00	0.00	0.00	0.00

**Panel B: Employees Disclosure**

SECTOR	EMPLOYEES DISCLOSURE				
	MEAN	MEDIAN	STDEV	MIN	MAX
1- Banks and Financial Services	1.81	1.53	0.92	0.70	2.95
2- Petrochemical Industries	1.55	1.44	0.85	0.53	3.19
3- Cement	1.05	0.93	0.49	0.60	2.03
4- Retail	1.04	0.91	0.83	0.34	3.24
5- Energy and Utilities	2.51	2.51	0.50	2.15	2.86
6- Agriculture and Food Industry	1.17	1.02	1.00	0.08	4.04
7- Telecommunication and Information Technology	1.50	0.80	1.31	0.68	3.01
8- Insurance	0.96	0.88	0.43	0.41	2.24
9- Multi-Investment	0.59	0.70	0.24	0.20	0.81
10- Industrial Investment	0.88	0.80	0.42	0.52	2.10
11- Building and Construction	1.26	1.01	0.82	0.43	2.84
12- Real Estate Development	0.75	0.65	0.30	0.46	1.11
13- Transport	1.05	1.26	0.50	0.48	1.40
14- Media and Publishing	0.70	0.70	0.43	0.39	1.00
15- Hotel and Tourism	1.13	0.77	0.95	0.42	2.21

### Panel C: Society Disclosure

SECTOR	SOCIETY DISCLOSURE				
	MEAN	MEDIAN	STDEV	MIN	MAX
1- Banks and Financial Services	0.62	0.65	0.42	0.18	1.56
2- Petrochemical Industries	1.49	1.01	1.99	0.24	8.31
3- Cement	0.93	0.94	0.39	0.27	1.50
4- Retail	1.11	1.19	0.40	0.45	1.72
5- Energy and Utilities	0.47	0.47	0.49	0.12	0.81
6- Agriculture and Food Industry	0.98	0.85	0.85	0.21	3.64
7- Telecommunication and Information Technology	1.81	1.56	0.94	1.02	2.85
8- Insurance	0.76	0.81	0.34	0.16	1.31
9- Multi-Investment	0.67	0.63	0.21	0.43	0.94
10- Industrial Investment	0.85	0.73	0.40	0.36	1.56
11- Building and Construction	1.05	0.82	0.55	0.28	2.26
12- Real Estate Development	0.99	1.18	0.39	0.47	1.33
13- Transport	0.68	0.51	0.41	0.38	1.15
14- Media and Publishing	0.54	0.54	0.10	0.47	0.61
15- Hotel and Tourism	1.11	1.17	0.13	0.96	1.21

### Panel D: Customer Disclosure

SECTOR	CUSTOMER DISCLOSURE				
	MEAN	MEDIAN	STDEV	MIN	MAX
1- Banks and Financial Services	0.02	0.00	0.05	0.00	0.16
2- Petrochemical Industries	0.01	0.00	0.03	0.00	0.10
3- Cement	0.00	0.00	0.00	0.00	0.00
4- Retail	0.00	0.00	0.00	0.00	0.00
5- Energy and Utilities	0.00	0.00	0.00	0.00	0.00
6- Agriculture and Food Industry	0.00	0.00	0.00	0.00	0.00
7- Telecommunication and Information Technology	0.00	0.00	0.00	0.00	0.00
8- Insurance	0.00	0.00	0.00	0.00	0.00
9- Multi-Investment	0.00	0.00	0.00	0.00	0.00
10- Industrial Investment	0.00	0.00	0.00	0.00	0.00
11- Building and Construction	0.00	0.00	0.00	0.00	0.00
12- Real Estate Development	0.00	0.00	0.00	0.00	0.00
13- Transport	0.00	0.00	0.00	0.00	0.00
14- Media and Publishing	0.00	0.00	0.00	0.00	0.00
15- Hotel and Tourism	0.00	0.00	0.00	0.00	0.00

**Note:** The table shows the results for CSD for each sector separately. Panel A presents this analysis for environmental disclosure, Panel B details employees disclosure, Panel C highlights social disclosure while Panel D summarises disclosure related to costumers.

As can be seen from Panel A (environmental disclosure), five of the economic sectors (33.33% of industries) did not provide any information regarding environmental matters, which means that these industries did not accord this type of disclosure any priority or importance; however, ten economic industries (66.67% of industries) provided environmental disclosure thus ascribing it some kind of importance. The telecommunications and

information technology sector recorded the highest mean pages of disclosure, which was 0.80<sup>82</sup>. The petrochemical sector recorded the second highest average level of environmental disclosure with the mean of 0.30<sup>83</sup>. Even though the two aforementioned sectors provided the highest volume of environmental information based on their means of disclosure, the minimum number pages of disclosure (which was 0.00) showed that some companies within these sectors did not provide any environmental information in their annual report (two out of three companies of the telecommunications and information technology sector and four companies of the petrochemical sector). Hence, although it could be noticed that the petrochemical sector is widely regarded as environmentally sensitive (see, for example, Bayoud et al., 2012a) some firms are not providing stakeholders with information on this topic. The other sectors mentioned environmental disclosure information in their annual reports in the following descending order based on their means: the cement sector, then both the banks and financial services and retail sectors, followed by the building and construction sector, then the industrial investment sector, and finally, both the agriculture and food industry and multi-investment sectors.

Panel B of Table 7.5 provides the results of employee-related disclosure by economic sector. As can be seen, all sectors provided a level of employee-related disclosure; however some were more evident than others. The multi-investment sector followed by the media and publishing sector recorded the lowest means of employee disclosure at 0.59, and 0.70 respectively<sup>84</sup>. In contrast, the energy and utilities sector, and the banks and financial services

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<sup>82</sup> The maximum amount of disclosure was 2.40 pages (provided by 'Telecommunication and Information Technology Company'), while the minimum amount of disclosure was 0.00 pages (recorded by 'Mobile Telecommunications Company Saudi Arabia -ZAIN KSA' and 'Etihad Etisalat Co. -EEC')

<sup>83</sup> The maximum amount of disclosure was 0.86 pages (provided by 'Sahara Petrochemical Company'), while the minimum amount of disclosure was 0.00 recorded by four companies within the sector.

<sup>84</sup> The maximum amount of disclosure were 0.81 and 1 page respectively (provided by 'Aseer Trading, Tourism and Manufacturing Company' and 'Saudi Printing and Packaging Company').

sector appear to have the highest level of disclosure within this category with means of 2.51 and 1.81 respectively<sup>85</sup>. The results also indicate that all companies across all sectors did provide some form of employee disclosure information.

Panel C, which deals with society disclosure, illustrates that, as in the case of environmental disclosure, both the telecommunications and information technology sector, and the petrochemical industries sector recorded the highest levels of society disclosure with means of 1.81 and 1.49 respectively<sup>86</sup>. By contrast, both the energy and utilities sector and the media and publishing sector had the lowest levels in society disclosure respectively, with means of 0.47 and 0.54<sup>87</sup>. The results also indicate that all companies within all sectors did provide society disclosure information.

The last Panel (D) provides the results of the customer disclosure category across the 15 sectors. The majority of sectors (13 sectors: 86.7%) disclosed no information regarding this category, which suggests that this category had the lowest priority and importance accorded to it across the sectors, at least in the context of reporting. Only two sectors (13.3%) did report related information; these are the banks and financial services sector, and the petrochemical industries sector with means of 0.02 and 0.01, respectively. The maximum amounts of disclosure respectively were 0.16 and 0.10 pages (provided by ‘Samba Financial Group’ and ‘Methanol Chemicals Company’ respectively); however, some companies in these two sectors did not provide any information related to this category which resulted in the minimum amount of disclosure pages of 0.00 for both of them.

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<sup>85</sup> The minimum amounts of disclosure were 2.15 and 0.70 pages (provided by ‘Saudi Electricity Company’ and ‘Arab National Bank’ respectively). This indicates that all companies in these two sectors did provide some form of employee disclosure information.

<sup>86</sup> The maximum amounts of disclosure were 2.85 and 8.31 pages (provided by ‘Saudi Telecom’ and ‘National Industrialization Company’ respectively).

<sup>87</sup> The maximum amounts of disclosure were 0.81 and 0.61 (provided by ‘National Gas and Industrialization Company’ and ‘Saudi Printing and Packaging Company’ respectively).

After outlining the results of CSD by different sectors operating in Saudi Arabia and the results of the main disclosure categories according to the different economic sectors, the next section presents the nature of CSD provided by Saudi companies. Specifically, the nature of the type of news of disclosure, and the auditability of information disclosed by companies are outlined.

### **7.3.4 Analysis of the Nature of CSD**

This part of the content analysis results provides additional insight related to the nature of CSD information provided by companies in the sample. An explanation of the way in which companies provide information and news about their CSD practices is given, as well as the potential for this information to be audited. Such a breakdown is helpful in gaining an understanding of the nature of the information provided and the means by which companies communicate on social and environmental matters.

#### **7.3.4.1 News Categorisation**

Although all companies in the sample did provide different forms and volumes of CSD information, a deeper understanding of the type of news that information contains might provide helpful insight into the nature of the disclosures. In accordance with previous CSD studies (e.g. Gray et al., 1995b) the type of news can be divided into good news, neutral news, and bad news<sup>88</sup>. More information can be obtained from Table 7.6, which summarises the percentage of each type of news provided by companies in the sample from their annual reports.

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<sup>88</sup> Gray et al. (1995b) provided a description of what constitutes good, neutral and bad news in the context of CSD and that distinction is used here. Good: statements beyond the minimum which include (for example) specific details where these details have a creditable or neutral reflection on the organisation; any statements which reflect credit on the organisation; upbeat analysis/discussion/statements. Neutral: statement of policy or intent within statutory minimum with no details of what or how; statement of facts whose credit/discredit to the organisation is not obvious– which are unaccompanied by editorialising. Bad: any statement which reflects/might reflect discredit on the organisation.

**Table 7.6: Nature of CSD- News Categorisation**

Category	Percentage of Type of News		
	Good %	Neutral %	Bad %
Environment	100.00	0.00	0.00
Energy	100.00	0.00	0.00
Sustainability	100.00	0.00	0.00
Environmental other	94.44	5.56	0.00
<b>Total Environmental Disclosure</b>	<b>97.92</b>	<b>0.08</b>	<b>0.00</b>
Employment data	51.05	48.95	0.00
Job opportunities and training	100.00	0.00	0.00
Staff training and development	98.88	0.12	0.00
Pension data	75.89	24.11	0.00
Employment of disabled persons	88.89	11.11	0.00
Consultation with employees	0.00	0.00	0.00
Employees' share ownership	65.22	34.78	0.00
Health and safety (insurance+ at work)	92.50	0.00	0.50
Employee other	81.95	18.05	0.00
<b>Total Employees Disclosure</b>	<b>64.10</b>	<b>35.83</b>	<b>0.07</b>
Charity and donation	100.00	00.00	0.00
Zakat	18.89	81.11	0.00
Community other	97.14	0.86	0.00
<b>Total Society Disclosure</b>	<b>30.77</b>	<b>69.23</b>	<b>0.00</b>
Products and customer safety	0.00	0.00	0.00
Customer complaints	100.00	0.00	0.00
Customer other	100.00	0.00	0.00
<b>Total Customer Disclosure</b>	<b>100.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Total</b>	<b>51.60</b>	<b>48.36</b>	<b>0.04</b>

**Note:** The table shows the percentage of each type of news of CSD information (good news, neutral news, and bad news) based on the overall number of recorded news items.

As can be seen from the table, most attention was paid to good news items which attracted 51.6% of the total news, and a great deal of attention was paid to the provision of neutral news, scoring 48.4% of the total news; whereas bad news disclosure was very low being only 0.04% of the total news.

Most CSD is expected to be positively oriented, as providing negative information could affect the value of the company's shares and the company's reputation (Deegan and Gordon, 1996; Jaggi and Zhao, 1996).

Customer disclosure recorded the highest percentage of good news (100%) among other categories, as all information disclosed under this category was totally dominated by good

news items; this might be explained by the limited volume of such information, where only four disclosure statements were recorded under this category and all these recorded good news (such information were provided by Riyadh Bank; Samba Financial Group; Alujain Corporation; and Methanol Chemicals Company). A great deal of good news was apparent in the environmental disclosure category; 97.9% of the total news was good while the rest of the news disclosures were neutral in orientation. Sixty-four per cent of disclosure information related to the employee category was coded as good while 35.8% was recorded as neutral, and only 0.1% of the total news was considered bad. The society disclosure category came last according to the percentage of good news information related to the category; 30.8% of the total news was deemed to be good while 69.2% was considered neutral. Examples of good and neutral news disclosures are provided in the following quotations:

#### **Good news**

"SABB has always striven to maintain the highest ethical standards in all of its dealings by encouraging the highest personal standards of integrity at all levels and a commitment to truth and fair dealing in all of our activities. SABB continued to make significant progress in its Saudisation initiatives. A comprehensive policy and plan were introduced during the year. The Saudisation ratio increased to 86.9% with a significant increase in the number of women in all departments and in senior management whilst several development initiatives were rolled out for female development. SABB participated in major career day events in Saudi Arabia, the United Kingdom and the United States of America and recruited 158 young high-potential Saudi graduates to join SABB's development programmes" (The Saudi British bank, 2012, p.34).

#### **Neutral news**

"The Company is subject to Zakat in accordance with the regulations of the Department of Zakat and Income Tax (the "DZIT"). Provision for Zakat, if any, is charged to the statement of operations. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law"

(Mobile Telecommunication Company, 2012, p. 55).

The result showing the almost complete absence of bad news reporting was not surprising; this finding is consistent with other studies conducted in developing countries (see, for example, Imam, 2000; Belal, 2001). Aribi (2009) stated that:

"Companies might avoid disclosing bad or negative news in their reports, since such information is not favourable to their corporate reputation and therefore may reduce the company's profit or its capital market" (p. 116).

Indeed, only one company in the entire sample (National Gas and Industrialization Company) disclosed bad news information within their annual report which is presented next.

### **Bad news**

A summary of all accidents and injuries which happened during work in the year 2012:

<b>Work injuries</b>	
	62
Accidents related to truck transport and distribution of gas	34
Fire accidents	3
Leaking accidents	1

(National Gas and Industrialization Company, 2012, p. 14)<sup>89</sup>.

### **7.3.4.2 Auditability of Information**

Determining the auditability of CSD information provided by companies is another way to examine the nature of social responsibility disclosure. In line with previous content analysis studies (e.g. Gray et al., 1995b; Dunne, 2003; Dunne et al., 2004) disclosure is categorised as 'auditable' if, given access to the organisation, it would be possible to confirm the statements

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<sup>89</sup> This example is translated from the Arabic version of the company's annual report by a certified translation office in the UK.



made<sup>90</sup>. Table 7.7 shows the percentages of the overall auditable and non-auditable disclosure categories, and provides details based on the disclosure categories.

**Table 7.7: Nature of CSD- Auditability of Information**

Category	Percentage of Auditability	
	Auditable %	Not Auditable %
Environment	56.41	43.59
Energy	66.67	33.33
Sustainability	33.33	66.67
Environmental other	58.33	41.67
<b>Total Environmental Disclosure</b>	<b>54.17</b>	<b>45.83</b>
Employment data	46.98	53.02
Job opportunities and training	56.76	43.24
Staff training and development	53.41	46.59
Pension data	77.46	22.54
Employment of disabled persons	44.44	55.56
Consultation with employees	00.00	0.00
Employees' share ownership	30.43	69.57
Health and safety (insurance+ at work)	60.00	40.00
Employee other	40.60	59.40
<b>Total Employees Disclosure</b>	<b>50.55</b>	<b>49.45</b>
Charity and donation	72.55	27.45
Zakat	24.08	75.92
Community other	54.96	45.04
<b>Total Society Disclosure</b>	<b>30.14</b>	<b>69.86</b>
Products and customer safety	0.00	0.00
Customer complaints	0.00	0.00
Customer other	75.00	25.00
<b>Total Customer Disclosure</b>	<b>75.00</b>	<b>25.00</b>
<b>Total</b>	<b>42.11</b>	<b>57.89</b>

**Note:** The table shows the percentage results of the auditability of CSD information (the percentage of the auditable and non-auditable information) based on their total number.

The results from Table 7.7 indicate that 42.1% of the total disclosure is considered auditable, while 57.9% is not auditable which means most of the social information provided by companies in the sample could not be verified. An example of nonauditable information is presented below.

#### **Nonauditable information**

"The company continued helping the families of the employees, in the company, who were negatively affected by the flood and natural disasters

<sup>90</sup> The definition of audit which is adopted in this study is not a standard definition, and it has been applied as it corresponds with that used by some previous studies in CSD such as Gray et al. (1995b), and in other financial reporting areas such as Dunne et al. (2003).

which hit several places in the world. The company has branches and projects in these areas, and it provides aid in the form of temporary residency, food and money. The company continuously works on developing and raising the level of initiatives as regards to social responsibility<sup>91</sup>.

(Red Sea Housing Services Company, 2012, p. 31-32).

A total of 54.2% of environmental disclosure could potentially be confirmed while 45.8% could not; 50.55% of employee disclosure was auditable whereas 49.45% was not auditable; and 30.1% of the information related to society disclosure could be verified while 69.9% could not. Customer disclosure information achieved the highest percentage of auditable information (within the disclosure of the category) with 75% of related information considered auditable while 25% was not. An example of auditable information is provided next.

#### **Auditable information**

<b>Payment for any Zakat, taxes, duties or other charges</b>		
	<b>2012 (SR million)</b>	<b>2011 (SR million)</b>
Severance fee payable	92	83
Zakat payable	64	141
Withholding tax due to contracts	16	56
Social insurance	10	5
<b>Total</b>	<b>182</b>	<b>285</b>

(Saudi Arabian Mining Company, 2012, p. 86)<sup>92</sup>.

This section outlined analysis of the nature of CSD provided by Saudi companies, the next section demonstrates the location of CSD within companies' annual reports.

<sup>91</sup> This example is translated from the Arabic version of the company's annual report by a certified translation office in the UK.

<sup>92</sup> Most of the monetary information related to Zakat and social insurance was considered auditable, because companies have to pay these obligations to the Department of Zakat and Income Tax and the General Organisation for Social Insurance, respectively. Thus, through reviewing the actual paid Zakat in the relevant department and comparing it with the reported amount in companies' annual reports of financial statement, this information could be verified.

### 7.3.5 Location of Disclosure within the Annual Report

**Table 7.8: Location of CSD based on the number of Pages**

	<b>Chairman's Statement</b>	<b>Board of Directors' Report</b>	<b>Financial Statements</b>	<b>Notes to the Financial Statements</b>	<b>Other</b>
<b>Mean</b>	0.01	1.05	0.19	0.79	0.22
<b>Minimum</b>	0.00	0.00	0.00	0.00	0.00
<b>Maximum</b>	0.16	2.68	0.50	2.18	7.34
<b>% Mean Disclosure</b>	<b>0.40</b>	<b>46.51</b>	<b>8.51</b>	<b>34.94</b>	<b>9.65</b>

**Note:** The table provides details of the location of CSD-related information within companies' annual reports. This information is provided based on the number of pages of CSD.

Table 7.8 provides information related to the location of CSD information within companies' annual reports. These details are based on the number of pages of CSD. Columns two to six present the mean, minimum, and maximum number of pages of disclosure included within five sections of the annual reports; namely, the Chairman's Statement; the Board of Directors' Report; the Financial Statements; Notes to the Financial Statements; and Other sections of the annual report. As can be seen from the table, the majority of CSD information was presented in the Board of Director's Report; the mean volume was 1.05 pages of disclosure which equates to 46.5% of the total CSD-related information published. The Notes to the Financial Statements section ranks second with a mean of 0.79 pages of disclosure, and equates to 34.9% of the total volume CSD-related information. The 'Other' section (e.g. company's file) ranks third with 9.7% of the total CSD information, followed by the Financial Statement section with 8.5% of the total CSD information, while the Chairman's Statement ranked lowest with only 0.4% of total CSD-related information published.

The minimum and maximum numbers of rates of disclosure show that there is some diversity in the location of disclosure by companies within companies' annual reports. For example, some firms published a large amount of social disclosure information within a specific location within the annual report while other firms did not provide any related information in this section. For example, the Telecommunication and Information Technology Company

included 7.34 pages of CSD information in the ‘Other’ sections of the annual report (Company’s File); while the Etihad Etisalat Company which operates in the same sector did not include this section within its annual report and so it could not disclose any information within this location.

### **7.3.6 Analysis of Separate Sustainability and Social Responsibility Reports**

This study primarily focuses on companies’ annual reports to examine CSD practices by Saudi listed companies in 2012. However, three companies also provided separate reports related to CSR<sup>93</sup> so it seemed pertinent to also explore these disclosures. The first one, provided by the Saudi Telecom Company, was entitled "Our Social Responsibility 2012"; the second report, provided by The Saudi Investment Bank, was called "Focus on Growth: The Sustainable Financial Partner of Choice"; and the last one, provided by Saudi Basic Industries Corporation ‘SABIC’, was known as "Step By Step: Sustainability Report 2012". Looking into these separate reports provided a broader description of social responsibility and disclosure practices provided by these companies; in addition it allowed for a comparison between the information provided in these separate reports with that provided in the same companies’ annual reports. Thus, a full content analysis process that has been applied to the main research sample (141 annual reports) was also applied to these reports.

The first report was the "Our Social Responsibility 2012" report provided by the Saudi Telecom Company which operates in the telecommunications and information technology sector. The report, which was in Arabic, primarily focused on presenting the company’s social responsibility efforts towards society, and towards the company’s employees, in addition to some information related to the environment and to customers. The report

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<sup>93</sup> Voluntary standalone CSR reports can be known as, for example, ‘Sustainability Reports’, ‘Environmental Reports’, ‘Citizenship Reports’ and ‘GRI Reports’ (Mahoney et al., 2013).

provides a great deal of information and detail regarding the services and projects related to CSR that have been provided by the company, most of which are not detailed in the company's annual report. In fact, only 11.6% (8.26 pages out of 71) of the company's annual report contained information on CSR. The total proportion of CSR information provided in this report was 47.3% (16.54 pages out of 35). The society disclosure category was accorded the highest amount of the disclosure with 8.36 pages of the total disclosure, followed by employee disclosure with 7.62 pages, while both environmental disclosure and customer disclosure categories ranked the lowest, with 0.34 and 0.22 pages respectively. No assurance report was provided within this report. The company published reports about its social responsibility for 2011, 2012, 2013 and 2014. An example of the disclosure provided within this report is given below:

"Employment of Disabled: The number of disabled employees in the company is 126 employees working in different departments until the end of 2012."

(Our Social Responsibility, Saudi Telecom Company, 2012, p16).

The second document analysed was the "Focus on Growth: The Sustainable Financial Partner of Choice" report provided by the Saudi Investment Bank which operates in the banks and financial services sector. The report consisted of 54 pages in the Arabic version (52 pages in the English version), and primarily focused on the integration of sustainability matters in the bank's strategy and across the whole of its system and operations. The overall amount of CSD-related information provided in the report was 40.5% (21.85 pages out of 54); while the CSD information provided within the company's annual report was 3.8% (3.64 pages out of 96). The environmental disclosure accounted for the highest amount (and almost all) of the disclosure in the report with 17.21 pages of the total disclosure. The employee disclosure information was 1.74 pages, while both society disclosure and customer disclosure ranked the

lowest, with 1.49 and 1.41 pages respectively. The disclosed information provided in this report was based around the sustainability strategy of the bank; how they applied the sustainability strategy to their operations; the efforts they made to help employees in adapting the sustainability strategy for their benefit; and the effort and steps they applied for the environment, society, and customer benefits. It is worth noting that the content of this report was largely guided by the GRI Sustainability Reporting Guidelines (G3.1); indeed they declared that their reporting accorded with GRI's level B (self-declared). The report included a GRI index (GRI Disclosures), however, as noted previously for the Saudi Telecom Company report, no assurance report was provided within the report. The company published sustainability reports for the years 2011, 2012, 2013, 2014 and 2015. This particular report disclosed information in the customer category, unlike the vast majority of sampled companies' annual reports as only four companies disclosed information about this category.

An example of such disclosure provided within this report is given below:

"The Voice of our Customer: "2012 has been a challenging yet rewarding year for the Quality Assurance team. A first challenge for our Customer Complaint Unit was to implement and apply for the ISO 9001:2008 within the scope of Customers Complaints Handling and Processing, which was successfully awarded to us in August 2012. Next to this, we are very proud to have launched the Voice of Customer (VOC) unit in July. The three-headed unit is responsible for getting the customer's feedback on four different scales: Accounts, Loans, POS [point of services] and Complaints. With Voice of Customer, we targeted 92% of all ... customers. A great achievement for the unit. [Quality Assurance Department] ".  
(Focus on Growth: The Sustainable Financial Partner of Choice, The Saudi Investment Bank, 2012, p. 37).

The third report was "Step By Step: Sustainability Report 2012" provided by the Saudi Basic Industries Corporation, 'SABIC', which operates in the petrochemical sector. The report consisted of 107 pages in both Arabic and English versions, and primarily summarised the key actions and projects that had been undertaken by the company which "reflects our

determination to enhance our sustainability performance continuously over time and respond to additional stakeholder expectations" (Step By Step: Sustainability Report, Saudi Basic Industries Group 'SABIC', 2012, p. 2). The report detailed and demonstrated the results of the projects undertaken across four key areas. The first focus was on environmental matters, in particular focusing on efforts made during the company's manufacturing activities to reduce the environmental effects of its activities. These were described as being: reducing harmful emissions; saving energy, water and raw materials; and recycling waste/excess resulting from manufacturing operations. In addition the report noted that the company had been helping the societies within which they operate in by providing charity and donations and projects. Regarding employee related disclosures the report mentioned: investing for employees' benefits; taking care of employees' health and safety; training programmes for employees; and providing a better workplace. In addition there was mention of looking after their customers: providing information about customer and product safety; improving the quality of products and services; and improving the manufacturing process of the products. The amount of CSR and sustainability disclosure was 31.4% (33.61 pages out of 107); while CSD information provided within the company's annual report was 5.4% (3.42 pages out of 63). The environmental disclosure achieved the highest amount of disclosure with 21.78 pages of the total disclosure, followed by employee disclosure with 6.72 pages, then society disclosure with 4.95 pages, and finally customer disclosure with 0.16 page. The *sustainability* sub-category was accorded the highest amount of disclosure amongst the sub-categories with 14.64 pages. This report could be considered a good example of such separate reports as it provided details of projects relating to transparency aimed at demonstrating the company's level of responsibility towards the environment, employees, society, and customers. As with the previous report, the content of this report was influenced by the GRI's Sustainability

Reporting Guidelines (G3.1), and as with the Saudi Investment Bank, SABIC also reported at GRI level B (self-declared). The report included a GRI Content Index, and an "Independent Assurance Report". The company published sustainability reports for 2011, 2012, 2013, 2014 and 2015. This particular report gives some emphasis to customer and products disclosure whereas the company's annual report in 2012 did not provide any disclosure in that category. An example of such disclosure provided within this report is given below:

"We are witnessing a steady increase in the number of customer inquiries focusing on product compliance and safety, indicating an increased awareness of and interest in health and safety issues in the value chain. To respond to inquiries from customers and prepare for new regulatory developments, we are hosting a series of educational webinars for customers about subjects such as changes in food contact regulation in Europe.

SABIC has retested all of our materials to make sure they are compliant with the new regulations, and we now provide hundreds of food-contact declarations concerning our European polymers portfolio as an important service to our customers."

(Step By Step: Sustainability Report, Saudi Basic Industries Group 'SABIC', 2012, p. 36).

In general, the provision of separate CSR or sustainability reports by Saudi companies can be considered a good step forward in efforts to be seen to be more responsible, and also to encourage other companies to adopt the social responsibility and sustainability concepts within their operations. However the critical comments that have been made in the literature regarding the motives for, and the volume of, such reports should be borne in mind (see Adams, 2004; Mahoney et al., 2013). The implications for stakeholder theory of the development of such standalone reports is discussed in Section 7.5.

#### **7.4 Advantages and Limitations of the Content Analysis**

Bryman (2004) outlined a number of advantages associated with using the content analysis method. First, content analysis is a very transparent research method. The coding schema and



the sampling procedures can be clearly set out so that replications and follow-up studies are feasible. Second, it can deal with large volumes of information and is data-sensitive which is the reason it is typically employed for the processing of symbolic meanings from information. Third, it provides an opportunity for the researcher to uncover meaning from text that they were not aware of previously. Fourth, the method is unobtrusive in so much as both the sender and the receiver are unaware of the fact that the communicated messages will be analysed. Fifth, content analysis helps the researcher to work on understanding the core of human and organisational behaviour and communication directly (Weber, 1990); it allows information to be generated about social groups that are ordinarily difficult to gain access to (Bryman, 2004). Finally, it is a highly flexible method which can be applied to a wide variety of different kinds of structured and unstructured information.

As with all research methods content analysis is subject to a number of limitations. Bryman (2004) argued that the technique is only "as good as the documents on which the practitioner works" (p. 197). Carney (1971, as cited in Dunne et al., 2004) believed that content analysis difficulties emerged based on the questions asked and the source materials available, "however, the choice of the annual report as the medium of analysis, adds a degree of comparability across companies, because of the similar layout, design and content of these documents" (Dunne, 2003, p. 169). It has also been argued that it is difficult to remove all subjectivity from the interpretation process, which means that the same document could mean different things to different users (Bryman, 2004), but Dunne (2003, p. 169) argued that "the reporting of both category and inter-coder reliability should provide some measure of comfort to the reader".

Another limitation is that, in content analysis, the choice of disclosure categories is often controversial (Carney, 1971, as cited in Dunne et al., 2004). The form of content analysis used here often has an in-built tendency to displace the actual meaning from the context, dislocate the units from their original place, and even dislodge the writer's real intentions (Denscombe, 2003). However, many successful studies in CSD have adopted the same main disclosure categories and most of the sub-categories which have been used in this study for the content analysis (see, for example, Ernst and Ernst, 1978; Gray et al., 1995b) so this adds some credibility to their use here.

In addition, in content analysis, researchers may be accused of being susceptible to bias. This is linked to the discretion that may be applied in the interpretation, analysis and collection of data (Jones and Shoemaker, 1994) and the existence of such bias can affect the contribution to knowledge of the study (Kolbe and Burnett, 1991). Such bias is reduced with the help of an existing accurate, realistic, authentic and detailed coding scheme which guides the (potentially numerous) coders throughout the content analysis process (Dunne et al., 2004).

## **7.5 Discussion and Conclusion**

This chapter has detailed the first method of analysis utilised in this study - content analysis- in assessing the current state of CSD provided by Saudi listed companies in their annual reports in 2012. In sum, it is clear that CSD has not developed yet to any great extent in KSA; firms in the country are still at an early stage in terms of the volume and the type of the disclosure provided, with some providing little disclosure across key categories of information.

The results of the content analysis indicate that all companies in the sample provided different volumes of information about their social responsibility in their annual reports. To some extent, there are differences in the type and the amount of disclosure provided across the disclosure categories as well as between different economic sectors, which could be affected by the nature of these sectors they operate in, or by the administration strategy and belief about CSR issues. These differences in the amount of disclosure provided by companies are common in other Arab MENA countries; for example, they are in keeping with the findings of Rizk et al. (2008) on Egyptian companies.

The results of the study clearly show evidence that almost all companies in the sample provided the information required by law in their annual reports; this included information related to *Zakat* (100% of the sample), *employment data* (137 companies, 97.2%), and *pensions data* (107 companies, 75.9%), as companies would face governmental penalties if they did not provide such required information. However, the results also showed that a large number of companies in the sample did not disclose other social responsibility information such as that related to the sub-categories of *energy* (only five companies); *sustainability* (only nine companies); *employment of disabled persons* (only five companies); *consultation with employees* (none), *product and customer safety* (none); and *customers' complaints* (only one company). It seems that much of the disclosure is provided because it is mandated and is thus geared towards the government, although of course other stakeholder groups (such as employees) benefit from the inclusion of this information also.

Thus, the official requirements appear to be an important reason in explaining the levels of employee and society disclosure categories which represent the first and second highest levels of disclosure, respectively, within the main disclosure categories (environmental,

employee, society, and customer). These results are consistent with the results of the studies by Abu-Baker and Naser (2000) in Jordan, and both Mashat (2005) and Elmogla (2009)'s research in Libya which found that the majority of CSD was related to the society and employee disclosure categories.

The disclosure related to the environmental category was ranked third based on the volume of disclosure provided by Saudi companies, but was still considered limited. This result which revealed the paucity of environmental disclosure category is consistent with other studies in Arab MENA countries such as those of Ahmad (2004) in Libya, Mashat (2005) in Libya, Aribi (2009) in the Arabic Gulf countries, and Elmogla (2009) in Libya, while it contrasts with the result of the study by Hanafi (2006) carried out in Egypt where he found that environmental disclosure accounted for the second highest level of CSD by Egyptian companies after employee disclosure. This result might indicate that the management of Saudi companies do not consider environmental information as being important to the public, or they might not believe in the right of different stakeholder groups to be made aware of this kind of information. However, the results of the questionnaire survey (reported in Chapter 8) reveal different views regarding the importance of providing environmental information (on pollution, energy usage, and conservation of natural resources) through companies' annual reports (see Chapter 8, Section 8.4.2). The results show that, on balance, the importance of disclosing such information was supported which suggests some awareness amongst different stakeholder groups regarding environmental issues; also such responses are consistent with respondents thinking that companies did not provide enough information in regard to their social and environmental responsibilities.

The results further show that the great majority of companies in the sample (apart from four) did not provide any information related to the customer disclosure category, which resulted in this category achieving the lowest mean level of disclosure. This might indicate that these companies do not see customers as an important stakeholder group to be served or managed by providing them with CSR information. This result is consistent with that of Pratten and Mashat (2009) on the situation in Libya, while it is in contrast to Hussainey et al. (2011) study's result in the Egyptian context, which found that the majority of CSD information was related to customer and product matters.

Nevertheless, some companies in the sample ascribe some level of importance towards the CSD issue by providing more information than is required by law, which is related to different CSD sub-categories. For example, companies operating in the telecommunications and information technology sector<sup>94</sup> followed by firms operating in the petrochemical industries sector - as well as some other companies in other sectors – provided a relatively large volume of detailed information regarding environmental, employee, and society disclosures<sup>95,96</sup>. This indicates that the management of these companies might consider that providing this kind of information is an important factor when serving different stakeholder groups. They also might believe that different stakeholder groups have the right to know about the companies' actions and activities, their effects on the environment and the society

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<sup>94</sup> This result is consistent with the result of Salama's (2009) study in Egypt, where he found that companies operating in telecommunications and information technology systems are more likely to provide CSD information than companies operating in other economic sectors.

<sup>95</sup> 25 companies provided information under the *environment* sub-category; 19 companies provided information under the *environmental other* sub-category; 51 companies provided information under the *job opportunities and training* sub-category; 68 companies disclosed information under the *staff training and development* sub-category; 55 companies provided information under the *employee other* sub-category; 44 companies provided information under the *charity and donation* sub-category; and 63 companies provided information under the *community other* sub-category.

<sup>96</sup> It is worth mentioning in this context that these firms are local rather than international firms; however, by providing such information they may be trying to attract international investments and see CSD as important in that context.

they operate in, and the way they treat their employees. In addition, three companies in the sample (from different economic sectors) published standalone CSR and sustainability reports. This points to a high level of attention accorded to CSR disclosure by a few Saudi companies.

The theoretical perspective of this study is based on stakeholder theory which might help in analysing and understanding the results. The theory contains two variants - the normative variant and the managerial variant. According to the former, companies should provide CSR information to serve all stakeholder groups equally as all stakeholders have an equal right to be treated fairly by an organisation (see, for example, Gray et al., 1996; Mellahi and Wood, 2003; Deegan and Unerman, 2006); while in the latter variant companies provide CSR information to manage and serve the powerful stakeholder groups primarily (see, for example, Gray et al., 1996; Bailey et al., 2000; Deegan and Unerman, 2006). It could be argued that – based on the results provided here - the management of Saudi companies are adopting the managerial variant of stakeholder theory by serving the need for information of specific powerful stakeholder groups who can affect firms continuity, particularly the government, employees and society<sup>97</sup>. However, there are some differences in the level of adaptation of the managerial variants based on the number of stakeholder groups that have been served and taken into account through the process of providing CSR information, as some companies covered more or fewer areas of CSR information in their reports. The result of adopting the managerial variant of stakeholder theory can be applied to the wider population of such companies as the majority of companies in the sample failed to disclose

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<sup>97</sup> Companies tend to provide CSR information about their charity and donation activities and their payment of Zakat to serve the perceived public need.

any information related to the customer disclosure category (137 out of 141 companies), or the environmental disclosure category (103 out of 141 companies).

Regarding the nature of social information that has been disclosed, the results of this chapter indicate that more than half of the information disclosed is good news, followed by neutral news, while the publication of bad news items was almost non-existent. These results suggest that the majority of companies are trying to portray a good picture regarding how seriously they take their social responsibilities. Perhaps the one company that disclosed bad news might believe that the public, employees and other stakeholder groups have the right to know about any negative aspects of their operations and accordingly demonstrate their social responsibility. They may also be conscious that the reporting of some bad news may lend credibility to their reporting.

The results presented here provide a summary regarding the current state of CSD amongst Saudi-listed firms. However, in order to appreciate the motives behind such disclosures and their relative importance to interested parties it is crucial to obtain perspectives of key stakeholder groups.

The next chapter details the second method used in this study which is a questionnaire of these key players. Chapter 8 describes how the questionnaire survey was conducted and managed, and presents the results.

## **Chapter 8 : Questionnaire Survey**



## **8.1 Introduction**

The previous chapter focused on the process of conducting the content analysis, which was used as the first method in this study, and the findings from the content analysis of the Saudi listed companies' 2012 annual reports. This chapter discusses the results of the questionnaire survey which was used as the second method in this study. Many studies have adopted the questionnaire method in terms of collecting individual views and gathering information, and it has been frequently employed as a successful method in social science (Oppenheim, 1992). In this research, the researcher was seeking to explore different stakeholders' perspectives towards CSD provided by Saudi listed companies, in addition to recognising their views regarding different issues related to CSR and disclosure<sup>98</sup>. This chapter consists of five sections. Section 8.2 outlines the questionnaire design for this study. Section 8.3 evaluates the profiles of questionnaire participants. Section 8.4 presents the results to the questionnaire. Finally, Section 8.5 provides a discussion and conclusion to the chapter.

## **8.2 Questionnaire Design for the Study**

In line with Sekaran and Bougie (2013) multiple factors need to be considered in designing a questionnaire, in order to develop useful, clear and unambiguous questions. These include the wording of questions; the ways the variables will be categorised, scaled, and coded after receipt of the responses; and the general appearance of the questionnaire. Thus, lots of effort and time have been devoted to formulate a good design for the study's questionnaire; attempts were made to write clear, simple, and unambiguous questions with a logical order to

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<sup>98</sup> In order to elicit the opinions reported upon in this thesis, the researcher obtained the ideas for these questions from reviewing many sources. These were: CSD literature; an extensive review and analysis of the existing literature concerning accounting and CSD practices in the context of Arab MENA countries with the focus on Saudi Arabia and in the light of research questions; the results of the content analysis of Saudi companies' annual reports in Chapter 7; and, moreover, the researcher reviewed questionnaires used in previous studies in order to determine the attitudes of stakeholders towards CSD (such as Abu-baker, 1995; Al-Khater and Naser, 2003; Ahmad, 2004; Mashat, 2005; Elmogla, 2009).

make them easy to read and follow by respondents. Saunders et al. (2012) observed that the respondents' readiness to take part in a study depends on the way the questionnaire is organised and managed. The questionnaire used here adopts the "funnel approach" in which it starts with general and broad questions and gradually introduces more exact, precise and specific questions related to the study (Oppenheim, 1992; Sekaran and Bougie, 2013).

A closed-ended questionnaire was implemented for this research in order to discover and comprehend the stakeholders' perspectives about CSD. A five point Likert scale was used and the respondents expressed the extent of their agreement/disagreement or their assessment of importance by ticking the appropriate answers as SD= strongly disagree to SA= strongly agree, or as 1= not at all important to 5= very important. At the end of the questionnaire supplementary space was provided for any suggestions or ideas regarding the research or the questionnaire, or to add any information which they thought was related to practices of CSD in Saudi Arabia.

Apart from developing a good questionnaire, efforts need to be made to ensure that there is a high rate of response. The length of the questionnaire plays an important role in encouraging people to complete a questionnaire (Abu-Baker, 1995; Ahmad, 2004; Mashat, 2005; Elmogla, 2009; Barghathi, 2014), thus efforts have been devoted to formulate a reasonable length of questionnaire; which comprises eight pages including respondents' personal information on the first page, and a free space for more comments, respondents' contact details, and a note of thanks on the last page. In addition, a covering letter for the questionnaire is one of the few direct opportunities to influence respondents and motivate them to reply (Linsky, 1975). This letter introduces the researcher and her school; provides an overview of the research objectives; provides assurance that the information given in the questionnaire would remain

confidential; explains how the questions needed to be answered; and provides the researcher's contact details. The researcher presented this in a professional manner in the form of a booklet for the personally administered questionnaire, and provides the same information in a formal email for the online dissemination, which in addition describes how to access the online questionnaire (the web link). The researcher also expressed her appreciation towards the participant for his/her time and effort. Also, the researcher asked the respondents if they are interested in receiving a summary of the results to encourage them to answer the questionnaire. In addition, a follow up reminder email was sent to improve the response rate for the online version.

There were two key elements present in this research study's questionnaire (see Appendix 8.1). The purpose of the first part was to assemble general information about the background of the study participants. Basically, this part aimed to determine the demographical characteristics of the respondents involved in the study. There were around eight to 11 questions in this part (depending on group selected) which sought to gather information pertaining to the participant's education; the country where they received their most recent education; their highest qualifications; their years of work experience; and whether or not they held a professional degree in accounting or any other field.

The purpose of the second part of the questionnaire was to assess the participants' opinions regarding CSR and disclosure issues such as: (i) the importance assigned by Saudi companies to purposes for producing annual reports; (ii) the importance to wider society of disclosing CSR items in companies' annual reports; (iii) stakeholders' right to information within companies' annual reports; (iv) statements concerning the responsibilities of companies; (v) potential benefits to companies that can be achieved by reporting CSR information; (vi)

potential benefits to society that can be achieved by reporting CSR information; (vii) factors which may deter companies from providing CSR information; (viii) statements related to CSR and CSD; (ix) possible methods that can be used to disclose CSR information; (x) suitable locations to disclose CSR information; and (xi) the possible frameworks by which CSR information should be disclosed.

### **8.2.1 Developing the Questionnaire and the Pilot Study**

Before the final version of the questionnaire was developed, it went through several development phases. In the first phase, the researcher developed an initial version of the questionnaire based on a detailed review and analysis of the available literature. This version was created in English and involved discussions with her supervisors. In the second stage, the English version of the questionnaire was translated into the Arabic language because most of the respondents and participants including the researcher were Arabic language native speakers<sup>99</sup>. In the third phase, several postgraduate colleagues from the Accounting and Finance Department at Dundee University were asked to help with the first pilot study of the questionnaire<sup>100</sup>. Arabic was these students' native language and they were given both Arabic and English versions of the questionnaire to assess it on certain criteria. They were asked,

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<sup>99</sup> This translation process required much care and attention (Saunders et al., 2012) since a phrase or idiom could have multiple meanings. It was much easier to formulate a questionnaire in English and, then, translate it into Arabic since most of the relevant literature, e.g. Epstein and Friedman (1994); Gray et al. (1995a); Jaggi and Zhao (1996); Rahaman (2000); Gray and Bebbington (2001); Haniffa and Cooke (2005); O'Dwyer et al. (2005); Maali et al. (2006) is in the English language. Certain measures were considered to avoid problems of interpretation in the Arabic version of the questionnaire. For example, the researcher reviewed available questionnaires relating to aspects of accounting in Arab countries. Initially, these questionnaires had been prepared in English then translated into Arabic (such as Abu-baker, 1995; Ahmad, 2004; Mashat, 2005; Elmogla, 2009). This process helped the researcher to select the most suitable interpretation of some accounting terms and explanations used in the questionnaire.

<sup>100</sup> The pilot study played an important part in formulating and designing the questionnaire which was tested on a small group of participants. This helped the researcher to identify any technical issues and to solve them. These included: the scope and kind of questions asked; the way the questions were structured; the sequence in which the questions were asked; questions that were unnecessary or were missing; questions which were unsuitable or inadequate; the scale used in measuring the variable of interest; and scaling of questions. It helped, also, to ensure that the study participants were better able to comprehend the questions.

also, to analyse whether the Arabic and English versions of the questionnaire were consistent with each other. After this assessment, the researcher made various alterations to the questionnaire, which led to the creation of enhanced Arabic and English versions of the questionnaire. The fourth phase of developing the questionnaire was conducting the second pilot study in Saudi Arabia to ensure that the translation procedures did not lead to any misunderstanding of the questions. The researcher emailed the complete questionnaire (in both Arabic and English languages) to two academics in accounting in Saudi universities; one of them is, also, the accounting and financial manager of one of the biggest banks in Saudi Arabia. Then, using Skype, the researcher carried out online interviews to discuss the questionnaire with them, ascertain any modifications or explore any comments, points, or different opinions regarding the questions and both versions of the whole questionnaire. As a result of this stage, the researcher made certain revisions which resulted in the production of the final version of the questionnaire being ready to be distributed in both languages. The final English and Arabic versions are provided in Appendices 8.1 and 8.2 showing total responses to each question (in Appendix 8.1). The researcher developed four questionnaires to be appropriate for different groups of respondents (see Section 8.2.2).

For the purpose of this study, the researcher adopted both an online questionnaire and a personally administered questionnaire. For the online questionnaire, the researcher used the online website (called SurveyMonkey.com) to distribute the questionnaire. The researcher used the Arabic version as the main version for all of the survey population. However, there was a need to use the English version for the managers' sample since, in some companies; the managers were foreigners and not native speakers of the Arabic language.

### 8.2.2 Questionnaire Sample and Administration

A population is defined as "the entire group of people, events, or things of interest that the researcher wishes to investigate" (Sekaran, 2003, p. 256). In social research, it is vital to clearly define the population since that increases the chances of choosing a reasonably representative sample. As stated previously in Chapter 6, the purpose of the empirical survey was to assess opinions and perceptions about Saudi Arabia's existing CSD<sup>101</sup>. The researcher selected five groups for this study, namely: companies' managers; companies' employees; shareholders and investors; official body's employees (the Capital Market Authority); and academics in business schools.

Although it is acknowledged that managers were viewed as integral to the firm and thus not considered as stakeholders by Freeman (1984), a number of studies that have explored the views of interested parties to CSD have included these participants in their sample. These for example, Abu-Baker (1995); Naser and Baker (1999); Al-Khater and Naser (2003); Ahmad (2004); Elmogla (2009)<sup>102</sup>.

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<sup>101</sup> There were several other groups in the Saudi Arabian community which arguably ought to have been made the subjects of this research (e.g. customers, suppliers, and creditors). However, it seemed quite challenging to the researcher to analyse the attitudes of the representative samples of additional groups on these matters largely because of the technical and professional nature of the questions which needed to be assessed and the data collection methods (questionnaire), along with the associated cost issues. Despite this, the researcher's selection of the groups as participants in the survey was, also, in accordance with several survey studies relating to a variety of aspects of CSD practices (see, for example, Abu-Baker, 1995; Naser and Baker, 1999; Al-Khater and Naser, 2003; Ahmad, 2004; Elmogla, 2009).

<sup>102</sup> Abu-Baker (1995), for example, empirically examined Jordanian companies' reporting and disclosure practices using a questionnaire survey. The sample chosen of 131 respondents included financial managers, public accountants and academics who were considered to be the main stakeholder groups. Naser and Baker (1999) investigated the reasons behind the absence of CSD in Jordanian companies, by conducting a questionnaire survey of 206 participants from four user groups, namely: academics, government officials, finance managers, and public accountants. Al-Khater and Naser (2003) applied a questionnaire survey to explore the perspectives of 143 participants across four stakeholder groups (bank officers, academics, accountants and external auditors) regarding CSD in Qatar. Ahmad (2004) examined the scope of corporate environmental disclosure within Libya. He conducted a questionnaire survey to obtain the views of 53 managers of the aforementioned companies regarding corporate environmental responsibility and disclosure. Elmogla (2009) empirically explored CSD in Libyan organisations. He applied a questionnaire survey of four stakeholder groups, containing 303 participants, namely: academic accountants, financial managers, government officials.

The companies' managers group included those who had a vital function in the existing and future social disclosure activities; they included the top company's managers like Chief Executive Officers (CEOs); general manager (GM); Chief Financial Officer (CFM); and financial or accounting manager. The companies' employees group included employees and some managers, such as regional managers and departmental or sector managers who were considered to be, also, employees<sup>103</sup>. Shareholders and investors was one particular group that could be expected to possess knowledge, or at least be more familiar than many, about the annual reports of the company with which they were associated<sup>104</sup>. In the Official Governmental Body group, the researcher included the CMA employees since they play a vital part in looking after existing reporting practices and they possessed relevant information and experience as they belong to the official governmental body that is responsible for controlling and organising companies' activities in Saudi Arabia. Academics in Business Schools included academics in accounting, economics, business management, and in finance fields who teach in the business schools of Saudi Arabia's four big universities, namely; King Abdulaziz University; King Saud University; King Faisal University; and King Khalid University<sup>105</sup>.

As mentioned before, both online and personally administered questionnaire methods were adopted to distribute the questionnaire. Regarding companies' managers and employees, the researcher emailed the managers of Saudi listed companies (159 companies) through the

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<sup>103</sup> They were included in this category (not within the category of companies' managers) due to their having less effect on decision making since they implemented the orders of senior management.

<sup>104</sup> Since they were considered to be the companies' owners, it was important for the researcher to know their opinions and their degrees of awareness about CSD. Also, their inclusion in the survey provided the researcher with the opportunity to learn if they were using any power to force companies to be more socially responsible and to disclose this responsibility or, simply, their level of interest in CSD.

<sup>105</sup> Academics arguably have an impact on accounting, accounting education and accounting procedures, corporate reporting and disclosure, and managerial practices in the business field (Abu-Baker, 1995; Elmogla, 2009).

information provided via the TADAWUL website but did not receive any responses<sup>106</sup>. Then, the best available way was to distribute the questionnaires personally; however this took a longer time and greater effort and although it was more costly it was worthwhile in the end. The researcher chose 40 companies whose senior management was located within two cities (the capital city, Riyadh, and Jeddah) from all economic sectors in order to distribute the questionnaires to different managerial levels and also to companies' employees. The two cities were chosen due to their convenience, reasonably, for the researcher, while the choice of the companies was due to their accessibility in the cities.

Regarding the shareholders and investors group, the personally distributed questionnaire method was chosen to distribute the questionnaire to them in exchange halls at banks where investors came to sell and buy their shares. Most of the participants, whom the researcher met at exchange halls agreed to take the questionnaire, completed it, and, then, returned it by hand<sup>107</sup>. However, some of them were busy watching the board of shares prices and they did not want to be given a paper copy, instead they asked about the online version which was sent to them after the researcher obtained their email addresses.

Regarding the CMA group, firstly, the researcher used the online version of the questionnaire and sent it to the email for the CMA provided on its website, but no answer was received. Hence the researcher had to distribute the questionnaire personally for this group.

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<sup>106</sup> The TADAWUL website is the official website in Saudi Arabia that contains information about all listed companies' in Saudi Stock Exchange (SSE), including companies' reports, news, and SSE information.

<sup>107</sup> This situation provided opportunities for the researcher to interact face to face with the shareholders/investors through distributing the questionnaire and spending two to five minutes with them whilst asking them to complete the questionnaire. The researcher got the opportunity to introduce the area of study to the participants, she got a chance to launch the research topic, brief the respondents about the aim of the survey, and why they were selected. Also the researcher had a chance to motivate the participant to fill in the questionnaire completely with honesty, and to remove any ambiguities and doubts from the minds of respondents. In addition, the researcher had a chance to enhance the response rate, and to ensure an accurate sampling by having the opportunity to check the questionnaires for completeness.



Regarding the academics group, the online version of the questionnaire was used, which helped to reach all of the relevant academics from four different cities, through their information in the universities' websites. The researcher emailed all of them asking for their help in answering the questionnaire and explaining the way to access the online questionnaire.

### 8.2.2.1 Questionnaire Response Rate

The process of distributing the questionnaire started in the middle of December 2013 and it took three months until the middle of March 2014 to complete. Overall, the researcher distributed a total of 954 questionnaires: personally (240 questionnaires) and online (714 questionnaires) for the five participants groups. 177 of the distributed questionnaires were completed (115 of the personally distributed version and 62 of the online version); this represented 18.6% of the total number of distributed questionnaires. Table 8.1 presents the number of questionnaires distributed for each group and the returned number as well as the response rates.

**Table 8.1: Number of Questionnaire Respondents from Each Group**

Respondents Group	Personally distributed		%	Online version				%	Total Responses		%
	Number	Responses		Number	Received	Excluded	Usable		Number	Responses	
Managers	35	16	45.7	159	--	--	--	--	194	16	<b>8.2</b>
Employees	115	33	28.7	--	--	--	--	--	115	33	<b>28.7</b>
Capital Market Authority	35	26	74.3	--	--	--	--	--	35	26	<b>74.3</b>
Academics	--	--	--	419	274	224	50	11.9	419	50	<b>11.9</b>
Shareholders and Investors	55	40	72.7	136	89	77	12	8.8	191	52	<b>27.2</b>
<b>Total</b>	<b>240</b>	<b>115</b>	<b>47.9</b>	<b>714</b>	<b>363</b>	<b>301</b>	<b>62</b>	<b>8.7</b>	<b>954</b>	<b>177</b>	<b>18.6</b>

**Note:** The table reports the number and methods of questionnaires sent; the number of responses; and rates categorised by population groups. 'Excluded'= uncompleted questionnaires. 'Usable'= completed questionnaire which are used in this study.

The CMA generated the highest response rate whilst the managers generated the lowest response rate. Companies' employees and shareholders/investors response rates were similar

overall but shareholders/investors had a much higher response rate for the personally administrated questionnaires, whilst the academic response was the second lowest. Response rates may indicate the level of importance attributed by different groups to the CSD issue, although a very significant issue is the method used to administer the questionnaire with much higher response rates recorded for questionnaires that were personally distributed.

### **8.2.3 Reliability and Validity of Questionnaire Responses**

To ensure the accuracy of research results, it is necessary to employ the most appropriate research method in order to enhance the scientific nature of the research. Sekaran (2003) emphasised that it is therefore important to ensure that the research method selected measures the variables it is supposed to measure; reliability and validity are both quality measurements of research instruments (Sekaran, 2003).

According to Sekaran (1992) "reliability tests how consistently a measuring instrument measures whatever concept it is ... and helps to assess the "goodness" of a measure" (p. 171). A method is considered reliable when it produces the same results every time it is repeated, if it is applied to the same person (Sarantakos, 2005). Although there are several ways to test the reliability of a method, Cronbach's alpha is considered the most popular test to measure the reliability of questionnaire responses (Field, 2009). It "presents the average of all possible split-half correlations, and so measures the consistency of all items" (Gray, 2004, p. 208), and it is "considered a perfectly adequate index of the interim consistency reliability" (Sekaran, 1992, p. 174). This test takes a value from zero to one, and the closer the result is to 1 (while being above 0.7) the more reliable it is considered to be (Saunders et al., 2012). The generated score was 0.90 which is evidence of the reliability of the questionnaire responses.

According to Vaus (2002) "a valid question is one that measures what we think" (p. 96).

Sarantakos (2005) argued that validity is:

"the property of a research instrument that measures its relevance, precision, and accuracy ... it is a measure of the quality of the process of measurement, and one that reflects the essential value of a study, and which is accepted, respected, and indeed expected by the researchers and users of research. In general, a measure is expected to be relevant, accurate and precise" (p. 83).

The validity of the questionnaire, as the method used in this study, must be examined before conducting the research. The researcher examined this validity by pre-testing the questionnaire before conducting the research as described above.

#### **8.2.4 Statistical Techniques Employed for Data Analysis**

A variety of approaches and techniques were applied for the data analysis. After collecting the questionnaire from the respondents, the researcher coded the answers into an Excel spreadsheet and transferred them to the Minitab statistical program. This study focuses on different stakeholders' perceptions regarding the CSD provided by Saudi companies in their annual reports; because of that, most questions in the survey were designed based on a five-point Likert scale ranging from (1) strongly disagree (or not at all important) to (5) strongly agree (or very important). The normality of the data was tested and it was found that they were not normally distributed. Therefore, the researcher applied non-parametric tests. The ordinal scale of measurement used in the questionnaire determined the statistical tests that have to be applied (Anderson et al., 2010). Anderson et al. (2010) stated that "one consideration in determining whether a parametric or non-parametric method is appropriate is the scale of measurement used to gather the data" (p.728).

In order to investigate the significance of differences between sub-sample respondents, and because responses comprised ordinal data, both Kruskal-Wallis (K-W)<sup>108</sup> and Mann-Whitney (M-W)<sup>109</sup> tests were carried out. The K-W test is used to determine if any significant differences occur amongst different groups; if so, a M-W test is applied to identify which two pairs of populations show significant differences in their members' perceptions<sup>110</sup>. In addition, descriptive statistics such as means and standard deviations have been applied to shed more light on the respondents' perceptions<sup>111</sup>. The discussion of findings focuses more on those which have p-values equal to or less than 0.05.

### **8.3 Respondents' Backgrounds**

A total of 177 questionnaires from different Saudi Arabian user groups (managers; employees; shareholders and other investors; CMA; and academics in business schools) were analysed. The first part of the questionnaire identified general demographical information about the respondents (age, gender, present occupation; years of experience; respondents' levels of education; place of education for their most recent degree; and their professional qualifications). The majority of respondents, 119, to the questionnaire were male whilst 58 respondents were female. Table 8.2 presents summaries of all the questionnaire respondents.

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<sup>108</sup> The Kruskal-Wallis test is a nonparametric alternative to a one-way ANOVA.

<sup>109</sup> Mann-Whitney test is carried out to determine which two pairs of populations show significant different perceptions.

<sup>110</sup> The choice of significance level at which you reject the null hypothesis H<sub>0</sub> (which is usually a hypothesis of "no difference") is arbitrary. Conventionally the 5% significance level means that the differences have only a 5% probability of occurring by chance alone, and 1% significance level means that the differences have only a 1% probability of occurring by chance alone.

<sup>111</sup> Means and standard deviations are, strictly speaking, not appropriate as measures of ordinal data, but their use is widespread and they arguably have reasonable information content subject to assumptions made about the intervals in the ordinal data.

**Table 8.2: Demographical Summary of Respondents**

	Managers	Employees	Shareholders/ Investors	CMA	Academics	Total
<b>Panel A: Experience of Respondents</b>						
Less than 3 years	0 (0)	1 (3.0)	8 (15.4)	0 (0)	7 (14)	<b>16 (9.0)</b>
3-5 years	1 (6.3)	6 (18.2)	8 (15.4)	4 (15.4)	8 (16)	<b>27 (15.3)</b>
6-15 years	4 (25)	16 (48.5)	19 (36.5)	17 (65.4)	18 (36)	<b>74 (41.8)</b>
More than 15 years	11 (68.8)	10 (30.3)	17 (32.7)	5 (19.2)	17 (34)	<b>60 (33.9)</b>
<b>Panel B: Educational Qualifications of Respondents</b>						
Less than Secondary School	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	<b>0 (0)</b>
Secondary School	0 (0)	4 (12.1)	5 (9.6)	1(3.9)	0 (0)	<b>10 (5.6)</b>
Intermediate Diploma	0 (0)	2 (6.1)	0 (0)	0 (0)	0 (0)	<b>2 (1.1)</b>
Higher Diploma	0 (0)	1 (3.0)	3 (5.8)	0 (0)	0 (0)	<b>4 (2.3)</b>
Bachelor Degree	7 (43.8)	14 (42.4)	25 (48.1)	9 (34.6)	7 (14)	<b>62 (35.0)</b>
Master Degree	7 (43.8)	11 (33.3)	12 (23.1)	14 (53.9)	20 (40)	<b>64 (36.2)</b>
PhD Degree	2 (12.5)	1 (3.0)	7 (13.5)	2 (7.7)	23 (46)	<b>35 (19.8)</b>
<b>Panel C: Place of Education for the Most Recent Degree of Respondents</b>						
Saudi Arabia	7 (43.8)	18 (54.5)	41 (78.8)	11 (42.3)	13 (26)	<b>90 (50.8)</b>
Other Arab country	1 (6.3)	3 (9.1)	1 (1.9)	1 (3.8)	5 (10)	<b>11 (6.2)</b>
The UK	0 (0)	4 (12.1)	6 (11.5)	4 (15.4)	16 (32)	<b>30 (16.9)</b>
The USA	5 (31.3)	4 (12.1)	2 (3.8)	7 (26.9)	10 (20)	<b>28 (15.8)</b>
Canada/ Australia	3 (18.8)	3 (9.1)	2 (3.8)	3 (11.5)	4 (8)	<b>15 (8.5)</b>
East Asian Countries	0 (0)	1 (3.0)	0 (0)	0 (0)	2 (4)	<b>3 (1.7)</b>
<b>Panel D: Professional Qualification of Respondents</b>						
Accounting Qualification	2 (CPA)	2 (FCCA-SOCPA)	0	0	1 (SOCPA)	<b>5</b>
Engineering Qualification	0	2	0	0	0	<b>2</b>
Other Professional Qualification	1	2	2	0	0	<b>5</b>

**Note:** The table presents demographical information regarding questionnaire respondents. Panel A includes the number of respondents' years of work experience in each category along with the percentage of each element. Panel B details the educational qualifications of respondents for each group along with the percentage of each element. Panel C summarises the number and percentage of respondents in each element (country) for their most recent degree. Panel D includes the professional qualifications held by each group in accounting, engineering, and in any other professional qualifications (CPA/IACPA= The American Institute of Certified Public Accountants; FCCA= Fellow of Association of Chartered Certified Accountants; SOCPA= Saudi Organisation for Certified Public Accountants).

The total proportions of each individual group; managers, employees, shareholders/ investors, CMA, and academics are 9.0%, 18.6%, 14.7%, 28.2%, and 29.4% respectively. Twelve respondents (6.8%) are professionally qualified. One hundred and sixty-five (93.2%) of the participants are academically qualified higher than Diploma level which suggests a good basic knowledge of business issues. Eighty-seven (49.2%) of the respondents indicated that they got their most recent degree from outside Saudi Arabia, and most importantly, 73 of them graduated from institutes in the USA, UK, Canada, and Australia which might help in

reflecting the Western knowledge regarding CSR and disclosure issues<sup>112</sup>. One hundred and thirty-four (75.7%) of the respondents have recorded that they have six years or more experience.

Following this outline of the respondents' background, the next section focused on analysing the questionnaire results distinguishing, in particular, between the five stakeholder groups mentioned before.

#### **8.4 The Results of the Questionnaire**

The objective of this section is to report the respondents' perceptions about CSR and disclosure issues in Saudi Arabia, including their level of awareness of CSD.

The first six questions in the questionnaire addressed issues related to CSR and disclosure which are: (i) the level of importance which Saudi companies assign to a list of purposes for producing the annual report that is provided by company management; (ii) the importance to wider society of Saudi companies disclosing a list of items relating to CSD in their annual report; (iii) the extent of agreement regarding a list of stakeholders that should have the right to information within companies' annual reports about actions of Saudi companies which might affect them; (iv) the extent of agreement with a list of statements concerning the responsibilities of companies; and (v) the importance of a list of potential benefits to companies and another list of potential benefits to society which can be achieved by reporting

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<sup>112</sup> For example, managers attitudes to topics addressed in the questionnaire might be expected to vary with their educational experience and their knowledge of practices in other countries. Half of them had been trained and operated within the existing Saudi Arabian environment and, therefore, were perhaps less likely to suggest change regarding CSD practices within their companies. Whereas the other half of the sample were managers who had studied in developed countries where the issue of CSD was no longer a new phenomenon. Consequently, their Western education and experience, and the influence of Western companies, which had opened branches in Saudi Arabia, could play an important role in Saudi listed companies adopting and activating CSD practices.

social responsibility information. The overall results of these questions reveal a high level of agreement from all groups.

In contrast to the first six questions, Question 7, which is about the extent of agreement regarding a list of factors which may deter Saudi companies from reporting CSR information, reveals clear differences in opinions between groups and even between participants within groups. This question is considered particularly important within the questionnaire as it reflects different groups' perspectives and differing views between groups regarding some of the listed reasons; such findings might help to shed some light on this issue which might help in addressing the arguable lack of CSD within the Saudi context which was noted in the previous chapter. The rest of the questions from eight to 11 are about the extent of agreement regarding a list of statements relating to CSR and reporting with reference to Saudi firms. They address: (i) the nature of company social responsibility and issues surrounding CSR disclosure; (ii) possible methods that can be used to disclose CSR information; (iii) suitable locations for disclosing CSR information; and (iv) possible regulatory frameworks by which CSR information could be disclosed. The results of these questions reveal for the most part, and in aggregate, high levels of agreement from all groups though with some exceptions.

#### **8.4.1 Importance assigned by Saudi Companies to Purposes for Producing Annual Reports**

This section provides the perceptions of participants from the five stakeholder groups about their assessment of the importance assigned by managers to various suggested purposes for producing annual reports. Table 8.3 (Panels A and B) portrays a summary of participants' responses: the Kruskal-Wallis (K-W) test was performed to highlight any differences amongst all groups relating to the listed purposes (Panel A), and the Mann-Whitney (M-W)

test was applied to find out any significant differences that occurred among each two-group pair (Panel B).

**Table 8.3: Level of Importance Assigned by Saudi Companies to Purposes for Producing the Annual Reports by Company Management**  
**Panel A: Means, Standard Deviations, and K-W test**

Q	Purpose of providing information	M	SD	Group Means					K-W p-value
				MNG	EMP	SHR	CMA	ACD	
1.1	To report to existing shareholders on the uses made of their funds and legality of those uses	4.37	0.87	4.63	4.48	4.27	4.54	4.22	0.34
1.2	To inform creditors about the financial position of the business	4.29	0.79	4.38	4.24	4.25	4.35	4.30	0.98
1.3	To help employees protect and advance their interests	3.91	0.98	4.25	4.00	4.04	3.92	3.60	<b>0.04*</b>
1.4	To assist managers in managing the company	4.18	0.88	4.44	4.18	4.40	4.15	3.86	<b>0.02*</b>
1.5	To assist potential investors in their investment decisions	4.36	0.76	4.50	4.42	4.42	4.23	4.28	0.54
1.6	To report to society at large in order to judge the actions and policies of the company	3.96	1.01	4.25	4.18	3.75	4.00	3.92	0.30
1.7	To assist in the negotiation of financial facilities with financial institutions	4.31	0.75	4.31	4.24	4.25	4.46	4.34	0.71
1.8	To report to the Income Tax and al Zakat departments, as a basis for taxation and Zakat assessment	4.42	0.78	4.63	4.42	4.44	4.46	4.32	0.53
1.9	To assist government agencies and departments in debates about the public interest	3.92	0.95	4.25	3.94	3.92	4.15	3.66	<b>0.03*</b>
1.10	To comply with the requirements of Islamic shari'ah, which requires the disclosure of information related to the impact of a company's activities on society and the environment	3.89	0.96	4.25	3.94	4.12	4.04	3.44	<b>0.00**</b>
1.11	For banks and financial services companies, and insurance companies, to provide information on their adherence to Shari'ah principles (e.g. riba and interest)	3.94	1.07	3.63	4.00	4.17	4.08	3.68	0.07
1.12	To provide information for sustainable development	3.55	1.11	3.31	3.76	3.73	3.58	3.28	0.17
1.13	To provide information for customers regarding the company's products, services and future prospects	3.76	0.95	3.88	3.97	3.92	3.77	3.40	<b>0.02*</b>
1.14	To provide information for other business partners (e.g. suppliers)	3.62	0.95	3.88	3.73	3.56	3.35	3.66	0.42

**Note:** This table shows the overall mean (M), standard deviation (SD) and group means for the respondents. The p-value for the Kruskal Wallis (K-W) test results shows significant differences across the groups' responses. Groups are defined as managers (MNG), employees (EMP), shareholders and investors (SHR), Capital Market Authority employees (CMA), and academics (ACD). A \*/\*\* indicates significance at the 5%/1% level respectively. Responses are based on a five-point Likert scale where 1= not at all important, 2= not important, 3= moderately important, 4= important, and 5= very important.

As can be seen from Table 8.3 (Panel A), there is, in aggregate, a level of broad importance attached by all groups regarding the listed purposes since the mean scores for all of them are clearly above the mid-point, 3. It is also noticed that the K-W test results reveal significant differences in the level of agreement in participants' perspectives related to five questions. These are Questions 1.3, 1.4, 1.9, 1.10 and 1.13, which, respectively, are about annual reports



being: (i) to help employees; (ii) to assist managers in managing the company; (iii) to assist government agencies and departments; (iv) to comply with the requirements of Islamic Shari'ah; and to (v) provide information for customers, show different levels of agreement amongst groups based on the results of the K-W test.

Question 1.1 which is about the provision of annual reports to existing shareholders achieved a broad level of agreement amongst the participants with a mean of 4.37 (the second highest mean among the listed purposes). This level of agreement across the different stakeholder groups shows a fairly consistent view that managers believe in shareholders' rights to have information about the companies they own. This result is consistent with the findings of the content analysis (see Chapter 7) which suggested that companies' management considered shareholders as one of the most powerful stakeholder groups when they prepare their companies' annual reports.

Also the results of Questions 1.2, 1.5, 1.6, 1.7, and 1.8, which are about: (i) the importance of informing creditors about the financial position of the business; (ii) assisting potential investors in their investment decisions; (iii) reporting to society at large in order to judge the actions and policies of the company; (iv) assisting in the negotiation of financial facilities with financial institutions; and (v) providing information to the Income Tax and al Zakat departments, show broad agreement with the statements among groups<sup>113</sup>. Question 1.8

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<sup>113</sup> The aggregate agreement recorded in regard to these questions would be consistent with respondents' belief in the right of creditors to know about the actions of those companies that they provide loans to. The company has to repay the debt and the financial position of the company is clearly of importance to existing, and also potential creditors. Also, they might believe in the right of investors to know about companies that they are going to invest in, society's right to know about companies operating within it, and the responsibility of financial institutions towards the companies that they give loans to, and thus these institutions have the right to know information about these companies through their annual reports. The finding regarding Question 1.8 was expected and unsurprising, since all companies operating in Saudi Arabia have to fulfil the requirements of Saudi Arabia's Department of Zakat and Income Tax through providing their tax declarations (for foreign companies) or providing their Zakat certificates (for Saudi companies) to the aforementioned department on a

recorded the highest mean score (4.42), and the rest of the mentioned questions also recorded high mean scores within this list of purposes. Questions 1.12 and 1.14, which are about, respectively, providing information for sustainability, and for business partners, indicate, in aggregate, a level of agreement amongst groups regarding them, but recorded the lowest mean scores amongst the listed potential reasons (3.55 and 3.62 respectively).

The second stage was to perform ten M-W tests to identify which two pairs of groups perceive the questions differently. The results are shown in Table 8.3 (Panel B).

Although the K-W test reveals significant differences regarding five of the listed potential purposes of providing annual reports between the groups, the M-W test results demonstrate significant differences between pairs of groups regarding seven of the listed purposes. In total there were 17 differences between pairs of groups, and in all of these differences the academics group was one of the pairs where differences occurred.

The results revealed that, compared to the other groups' perspectives, the academics group recorded the lowest level of importance regarding the majority of the mentioned purposes compared to other groups based on the group's mean scores and the individual responses (see Appendix 8.3, Table 1). This might be because the theoretical or educational perspective might differ from practical perspectives which have been adopted by other groups, as they might have a lack of practical knowledge and experience, or it could be related to some scepticism about the influence of corporate reports. It should be noted that only one (out of 50) academics is professionally qualified.

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yearly basis (Dept. of Zakat and Income Tax, 2012). This was because they had to pay an amount of their profit which would be used to help poor people (Zakat) as well as paying tax for other public services.

**Table 8.3: Level of Importance assigned by Saudi Companies to Purposes for Producing the Annual Reports by Company Management**  
**Panel B: M-W test**

Q	Purpose of providing information	M-W p-value									
		Managers &				Employees &			Shareholders &		CMA & ACD
		EMP	SHR	CMA	ACD	SHR	CMA	ACD	CMA	ACD	
1.1	To report to existing shareholders on the uses made of their funds and legality of those uses	0.99	0.26	0.82	0.17	0.20	0.84	0.13	0.30	0.74	0.19
1.2	To inform creditors about the financial position of the business	0.79	0.62	0.94	0.77	0.80	0.83	1.00	0.62	0.76	0.81
1.3	To help employees protect and advance their interests	0.48	0.60	0.39	<b>0.01**</b>	0.86	0.77	<b>0.04*</b>	0.65	<b>0.01**</b>	0.15
1.4	To assist managers in managing the company	0.47	0.92	0.53	<b>0.02*</b>	0.28	0.98	0.08	0.37	<b>0.00**</b>	0.13
1.5	To assist potential investors in their investment decisions	0.21	0.80	0.90	0.91	0.72	0.26	0.25	0.33	0.30	0.97
1.6	To report to society at large in order to judge the actions and policies of the company	0.83	0.09	0.62	0.42	0.06	0.72	0.46	0.22	0.29	0.80
1.7	To assist in the negotiation of financial facilities with financial institutions	0.93	0.94	0.29	0.69	0.86	0.30	0.77	0.18	0.54	0.34
1.8	To report to the Income Tax and al Zakat departments, as a basis for taxation and Zakat assessment	0.54	0.50	0.59	0.11	1.00	0.94	0.35	0.93	0.24	0.26
1.9	To assist government agencies and departments in debates about the public interest	0.31	0.44	0.69	<b>0.01**</b>	0.85	0.18	0.11	0.31	0.09	<b>0.00**</b>
1.10	To comply with the requirements of Islamic Shari'ah, which requires the disclosure of information related to the impact of a company's activities on society and the environment	0.26	0.88	0.83	<b>0.00**</b>	0.23	0.52	<b>0.02*</b>	0.67	<b>0.00**</b>	<b>0.01**</b>
1.11	For banks and financial services companies, and insurance companies, to provide information on their adherence to Shari'ah principles (e.g. riba and interest)	0.43	0.25	0.40	0.57	0.65	0.92	0.08	0.76	<b>0.00**</b>	<b>0.05*</b>
1.12	To provide information for sustainable development	0.29	0.25	0.59	0.85	0.94	0.60	<b>0.05*</b>	0.60	<b>0.02*</b>	0.31
1.13	To provide information for customers regarding the company's products, services and future prospects	0.75	0.72	0.90	0.06	0.85	0.69	<b>0.00**</b>	0.56	<b>0.00**</b>	0.09
1.14	To provide information for other business partners (e.g. suppliers)	0.50	0.21	0.17	0.34	0.33	0.19	0.67	0.39	0.52	0.24

**Note:** This table shows the p-values produced by a Mann-Whitney (M-W) test which indicates the difference between the responses of different pairs of groups. Groups are defined as managers (MNG), employees (EMP), shareholders and investors (SHR), Capital Market Authority employees (CMA), and academics (ACD). A \*/\*\* indicates significance at the 5%/1% level respectively. Responses are based on a five-point Likert scale where 1= not at all important, 2= not important, 3= moderately important, 4= important, and 5= very important.

## 8.4.2 Importance to Wider Society of Disclosing Corporate Social Responsibility Items in Companies' Annual Reports

This section reports the perceptions of the sample groups regarding the level of importance to wider society of disclosing a list of items related to CSR in a company's annual report. Table 8.4 (Panels A and B) provides details about the participants' answers to each element. The results of the K-W test are presented in Panel A.

**Table 8.4: Level of Importance to Wider Society of Disclosing CSR Items in Companies' Annual Reports**

**Panel A: Means, Standard Deviations, and K-W test**

Q	CSD items	M	SD	Group Means					K-W p-value
				MNG	EMP	SHR	CMA	ACD	
2.1	Employee-related information	3.88	0.95	4.44	4.24	3.52	4.00	3.78	<b>0.00**</b>
2.2	Environmental Information- pollution	3.91	1.18	4.06	4.00	3.60	4.12	4.02	0.37
2.3	Environmental Information- energy usage	3.80	1.12	3.88	3.94	3.65	4.04	3.70	0.56
2.4	Environmental Information- conservation of natural resources	3.86	1.16	3.44	4.09	3.77	3.96	3.90	0.41
2.5	Customer/product-related information	3.80	0.83	3.88	4.06	3.65	3.88	3.70	0.20
2.6	Involvement with local communities	3.98	0.98	4.06	4.00	3.85	4.04	4.06	0.77

**Note:** This table shows the overall mean (M), standard deviation (SD) and group means for the respondents. The p-value for the Kruskal Wallis (K-W) test results shows significant differences across the groups' responses. Groups are defined as managers (MNG), employees (EMP), shareholders and investors (SHR), Capital Market Authority employees (CMA), and academics (ACD). A \*/\*\* indicates significance at the 5%/1% level respectively. Responses are based on a five-point Likert scale where 1= not at all important, 2= not important, 3= moderately important, 4= important, and 5= very important.

The questions' mean scores presented in Table 8.4 (Panel A) indicate, in aggregate, a level of importance attached by all groups towards the listed CSR items since all of them are clearly above the mid-point, 3 (see also Appendix 8.3, Table 2). Respondents' answers indicated their desire to have information on all CSR items within companies' annual reports. The K-W test reveals only one significant difference in the level of perceived importance between the groups and this is related to the first item, Question 2.1, which is about providing employee-related information within companies' annual reports.

Questions 2.2, 2.3, and 2.4 asked about the importance to wider society of providing environmental information (on pollution, energy usage, and conservation of natural

resources) through companies' annual reports. The results show that, in aggregate, all groups supported the importance of disclosing such information. The mean score for Question 2.2 recorded the second highest mean score among the listed CSR items with 3.91, while Question 2.3 recorded the lowest mean score with 3.80. The overall agreement related to environmental information might indicate a high level of awareness amongst different stakeholder groups regarding environmental issues; also respondents might have thought that companies did not provide enough information with regard to their social and environmental responsibilities which might reflect their attitudes in answering these questions. The results of the content analysis method for Saudi companies' annual reports in 2012 (see Chapter 7) seems to show a different trend of Saudi companies towards disclosing environmental information in their annual reports, as the mention of such information was still limited. Thus the answers from different stakeholder groups on these questions send a clear message to companies that more information about these items is believed to be needed.

Questions 2.5 and 2.6 asked, respectively, whether information related to customers or products, and information about involvement with local communities are important details in companies' annual reports. The former question recorded the lowest mean score among the list of CSR items with 3.80 (as Question 2.3), while the latter question registered the highest mean score with 3.98. This result, regarding Question 2.6, reflects the importance of this CSR item, which would be consistent with respondents' beliefs in the public's right to know about the activities of companies that operate in the society in which they live. In addition, the growing awareness about and discourse on the CSR issue in the last decade could be another reason for this response.

To see whether any two groups have any significant differences in perceptions, ten M-W tests were performed; the results are shown in Table 8.4 (Panel B).

**Table 8.4: Level of Importance to Wider Society of Disclosing CSR Items in Companies' Annual Reports**  
**Panel B: M-W test**

Q	CSD items	M-W p-value									
		Managers &				Employees &			Shareholders&		CMA & ACD
		EMP	SHR	CMA	ACD	SHR	CMA	ACD	CMA	ACD	
2.1	Employee-related information	0.59	<b>0.00**</b>	0.16	<b>0.01**</b>	<b>0.00**</b>	0.34	<b>0.03*</b>	<b>0.04*</b>	0.12	0.35
2.2	Environmental Information- pollution	0.80	0.21	0.97	0.76	0.19	0.70	1.00	0.11	0.12	0.67
2.3	Environmental Information- energy usage	0.96	0.62	0.75	0.38	0.44	0.74	0.23	0.31	0.73	0.10
2.4	Environmental Information- conservation of natural resources	0.06	0.32	0.16	0.20	0.27	0.63	0.25	0.59	0.86	0.60
2.5	Customer/product-related information	0.48	0.36	0.93	0.31	<b>0.05*</b>	0.54	<b>0.03*</b>	0.30	0.75	0.30
2.6	Involvement with local communities	0.80	0.37	0.90	1.00	0.43	0.90	0.74	0.42	0.24	0.87

**Note:** This table shows the p-values produced by a Mann-Whitney (M-W) test which indicates the difference between the responses of different pairs of groups. Groups are defined as managers (MNG), employees (EMP), shareholders and investors (SHR), Capital Market Authority employees (CMA), and academics (ACD). A \*/\*\* indicates significance at the 5%/1% level respectively. Responses are based on a five-point Likert scale where 1= not at all important, 2= not important, 3= moderately important, 4= important, and 5= very important.

The results show differences in the level of importance attached by different groups towards employee information (Question 2.1) and towards customers' or products' information (Question 2.5) (see Appendix 8.3, Table 2). The shareholders/investors group recorded the lowest percentage of importance (50%) regarding the inclusion of employee information within companies' annual reports which caused the majority of the differences recorded. This might be consistent with some of this group's belief that employees received salaries for their work, therefore there was no perceived need to provide information about them within the annual reports; also they might want to avoid facing pressure groups which could ask companies to provide a better standard of living for their employees which might in turn affect their benefits. In addition, they might disagree with disclosing such information for competitive considerations. In regards to Question 2.5, the employees' group recorded the

highest percentage of importance (81.8%) attached to including customers or product information within companies' annual reports. This might be because employees are the party who are making the products and dealing with customers by providing services; thus they might consider this information as reflecting their efforts in doing their jobs.

#### 8.4.3 Agreement Regarding the Right of Stakeholders to Information in Companies' Annual Reports about Actions that Might Affect them

This question sought to find out the respondents' level of agreement towards the rights of different stakeholder groups, listed in the question, to have information within companies' annual reports about the actions of Saudi companies which might affect them. Table 8.5 (Panels A and B) presents the participants' responses relating to these groups. The K-W test results are presented in Panel A.

**Table 8.5: Level of Agreement regarding the Right of Stakeholders to Information in Companies' Annual Reports about Actions that might affect them**

**Panel A: Means, Standard Deviations, K-W test**

Q	Stakeholder groups	M	SD	Group Means					K-W p-value
				MNG	EMP	SHR	CMA	ACD	
3.1	People with an interest in social and environmental matters	4.45	0.67	4.44	4.33	4.25	4.73	4.58	0.03*
3.2	Shareholders	4.72	0.54	4.75	4.67	4.67	4.88	4.70	0.49
3.3	Employees	4.28	0.70	4.19	4.33	4.12	4.62	4.26	0.06
3.4	Customers	4.13	0.80	4.00	4.18	4.08	4.46	4.02	0.12
3.5	Creditors/Lenders	4.31	0.86	4.00	4.45	4.21	4.58	4.26	0.22
3.6	Financial market investors	4.67	0.55	4.63	4.73	4.58	4.77	4.68	0.70
3.7	Local communities	4.20	0.83	4.31	4.00	3.98	4.46	4.40	0.03
3.8	Government agencies and departments	4.54	0.69	4.63	4.42	4.50	4.62	4.60	0.82
3.9	Business partners (e.g. suppliers)	4.14	0.77	4.00	4.12	4.15	4.35	4.08	0.32

**Note:** This table shows the overall mean (M), standard deviation (SD) and group means for the respondents. The p-value for the Kruskal Wallis (K-W) test results shows significant differences across the groups' responses. Groups are defined as managers (MNG), employees (EMP), shareholders and investors (SHR), Capital Market Authority employees (CMA), and academics (ACD). A \*/\*\* indicates significance at the 5%/1% level respectively. Responses are based on a five-point Likert scale where 1= strongly disagree, 2= disagree, 3= neither agree nor disagree, 4= agree, and 5= strongly agree.

As Table 8.5 (Panel A) shows, all respondents have high levels of agreement, in aggregate, that the listed stakeholders groups should have a right to information within companies' annual reports based on their mean scores (all above 4). The K-W test reveals only one

significant difference on the level of agreement between the groups related to Question 3.1, which is about the right of people with an interest in social and environmental matters to access the information within companies' annual reports. It is also noticed that each group had a mean of 4 or higher which is evidence of widespread agreement with only one exception regarding Question 3.7, where the shareholders/investors group registered a mean of 3.98.

Respondents considered that all stakeholders discussed in the question should have a right to information within companies' annual reports. This general agreement could be consistent with respondents' beliefs in the importance of such information for these groups; such as the information required to make investment decisions, providing loans, and to control companies' activities (by official bodies) or to set essential laws to control companies' activities (e.g. determine the degree of allowance given to companies, and the acceptable level of pollution for companies operating in the manufacturing sectors).

Respondents recorded the highest mean scores (4.72 and 4.67, respectively) for the right of shareholders and financial market investors to information. According to the Saudi Arabian Stock Market Authority, all companies listed in the Saudi Stock Exchange are required, in a specific period of time, to provide their annual reports with other reports to the SMA for official use and to also make them available for public scrutiny.

Questions 3.4 and 3.9, which are concerned with the right of customers and business partners to information, have recorded the lowest mean scores among the listed stakeholders with 4.13, and 4.14 respectively. However, these stakeholders groups still have high levels of agreement, in aggregate, by respondents based on their mean.



The next stage was to perform M-W tests to identify which pairs of groups perceive the questions differently; the results are demonstrated below in Table 8.5 (Panel B).

**Table 8.5: Level of Agreement regarding the Right of Stakeholders to Information in Companies' Annual Reports about Actions that might affect them**  
**Panel B: M-W test**

Q	Stakeholder groups	M-W p-value								
		Managers &				Employees &			Shareholders &	
		EMP	SHR	CMA	ACD	SHR	CMA	ACD	CMA	ACD
3.1	People with an interest in social and environmental matters	0.79	0.44	0.11	0.43	0.56	<b>0.04*</b>	0.18	<b>0.01*</b>	<b>0.03*</b>
3.2	Shareholders	0.97	0.64	0.27	0.91	0.62	0.20	0.95	0.06	0.61
3.3	Employees	0.48	0.86	0.06	0.84	0.21	0.21	0.36	<b>0.01**</b>	0.58
3.4	Customers	0.62	0.81	0.10	0.67	0.71	0.18	0.27	0.07	0.36
3.5	Creditors/ Lenders	0.13	0.38	<b>0.04*</b>	0.44	0.42	0.43	0.25	0.14	0.80
3.6	Financial market investors	0.39	0.97	0.33	0.62	0.30	0.88	0.60	0.26	0.55
3.7	Local communities	0.36	0.27	0.20	0.40	0.85	<b>0.02*</b>	<b>0.04*</b>	<b>0.02*</b>	<b>0.02*</b>
3.8	Government agencies and departments	0.40	0.37	0.81	0.59	0.98	0.46	0.57	0.43	0.53
3.9	Business partners (e.g. suppliers)	0.47	0.53	0.13	0.86	0.83	0.33	0.33	0.19	0.43

**Note:** This table shows the p-values produced by Mann-Whitney (M-W) test which indicate the difference between the responses different groups. Groups are defined as managers (MNG), employees (EMP), shareholders and investors (SHR), Capital Market Authority employees (CMA), and academics (ACD). A \*/\*\* indicates significance at the 5%/1% level respectively. Responses are based on a five-point Likert scale where 1= strongly disagree, 2= disagree, 3= neither agree nor disagree, 4= agree, and 5= strongly agree.

Although the K-W test reveals only one significant difference between the groups related to Question 3.1, the M-W test in Table 8.5 (Panel B) refers to 12 significant differences existing between pairs of groups related to Questions 3.1, 3.3, 3.4, 3.5, 3.7, and 3.9. All these differences occurred as a result of different level of agreement (percentage) attached to these questions by groups where the differences occurred (see Appendix 8.3, Table 3).

It is noticed that the CMA respondents were one group of nine pairs of these differences. This would be consistent with the normative considerations held by the CMA respondents towards upholding more equally the rights of all stakeholder groups to information<sup>114</sup>, and thus they send a message to companies' management to start adopting this idea when preparing companies' annual reports. The CMA group seem to be highly supportive of the right of

<sup>114</sup> The CMA group recorded the highest group's mean regarding eight of nine of the listed stakeholders who should have the right to information (see Table 8.5, Panel A).

people with an interest in social and environmental matters to information; they might think that this stakeholder group could play an important role in pushing companies to become more socially responsible and to force them to adopt better performance in respecting the environment and the rights of human beings. Also the CMA group strongly believe in employees' right to receive information which might help them to ask for their rights; for example, improving safety at work, reducing the level of pollution in which they were working, having good health insurance, and comparing the facilities provided to them with other companies operating in the same sector or in different economic sectors. Moreover, the respondents of the CMA seem to believe in the creditors'/lenders' right to information, as they might consider providing creditors with information to protect them in their dealings with companies, or might impose more conditions on companies to carry more responsibilities towards the environment and, also, towards human beings.

However the statistically significant differences shown in Table 8.5 Panel B should be interpreted in the light of the consistently high levels of agreement across all groups. The differences, it could be argued, are more a feature of the statistics rather than an indication of fundamental differences in views. This can, arguably, be seen by comparing the detailed responses which are analysed by groups in Appendix 8.3. Table 3 in the appendix shows that most responses in all the groups indicate agreement or strong agreement.

#### **8.4.4 Agreement with Statements Concerning Companies**

This section examines the respondents' level of agreement towards a list of four statements concerning the acceptance of the notion of companies' social responsibility. Table 8.6 (Panels A and B) displays the analysis of the participants' results. The results of the K-W test are shown in Panel A.

**Table 8.6: Level of Agreement with Statements Concerning Companies****Panel A: Means, Standard Deviations, and K-W test**

Q	Statements concerning companies	M	SD	Group Means					K-W p-value
				MNG	EMP	SHR	CMA	ACD	
4.1	Companies have responsibilities other than making profits	4.12	1.12	3.88	3.82	4.04	4.23	4.42	0.29
4.2	Companies should bear some social responsibilities to justify their existence within the society	4.58	0.60	4.69	4.55	4.62	4.69	4.48	0.56
4.3	Every company should be thought of as an entity whose existence and decisions can be justified in so far as they serve public or social purposes as well as private purposes	4.27	0.76	4.50	4.15	4.17	4.50	4.26	0.23
4.4	Companies make use of natural resources so should ensure that they use them responsibly	4.61	0.62	4.69	4.42	4.62	4.73	4.64	0.49

**Note:** This table shows the overall mean (M), standard deviation (SD) and group means for the respondents. The p-value for the Kruskal Wallis (K-W) test results shows significant differences across the groups' responses. Groups are defined as managers (MNG), employees (EMP), shareholders and investors (SHR), Capital Market Authority employees (CMA), and academics (ACD). A \*/\*\* indicates significance at the 5%/1% level respectively. Responses are based on a five-point Likert scale where 1= strongly disagree, 2= disagree, 3= neither agree nor disagree, 4= agree, and 5= strongly agree.

The results of Table 8.6 (Panel A) show that respondents have a high level of agreement, in aggregate, regarding all statements in the question. Question 4.1, which is about companies having responsibilities other than making profit, recorded the lowest mean score with 4.12. The aggregate agreement towards Questions 4.2 and 4.3, which, respectively, are about companies bearing some social responsibilities to justify their existence within society, and every company being thought of as an entity whose existence and decisions can be justified in so far as they serve public or social purposes, may not be unexpected. The result suggests that different stakeholders think that, in order to ensure continuity of businesses, companies have to accept some kinds of social responsibilities. Also, Question 4.4 recorded, in aggregate, an overwhelming agreement among respondents in regard to companies making responsible use of natural resources. This result suggests a high level of awareness among participants towards environmental issues and also it arguably implies support for the right to force companies to be more environmentally responsible.

The second stage was to perform ten M-W tests to identify if there are any pairs of groups that perceive the questions differently; the results are detailed in Table 8.6 (Panel B).

**Table 8.6: Level of Agreement with Statements Concerning Companies**  
**Panel B: M-W test**

Q	Statements concerning companies	M-W p-value									
		Managers &				Employees &			Shareholders&		CMA & ACD
		EMP	SHR	CMA	ACD	SHR	CMA	ACD	CMA	ACD	
4.1	Companies have responsibilities other than making profits	0.91	0.62	0.45	0.15	0.41	0.28	<b>0.04*</b>	0.71	0.18	0.43
4.2	Companies should bear some social responsibilities to justify their existence within the society	0.35	0.85	0.99	0.33	0.32	0.26	0.98	0.79	0.26	0.23
4.3	Every company should be thought of as an entity whose existence and decisions can be justified in so far as they serve public or social purposes as well as private purposes	0.14	0.10	0.80	0.21	0.97	0.11	0.60	0.08	0.57	0.20
4.4	Companies make use of natural resources so should insure that they use them responsibly	0.27	0.93	0.78	0.93	0.18	0.11	0.17	0.63	1.00	0.62

**Note:** This table shows the p-values produced by Mann-Whitney (M-W) test which indicate the difference between the responses different groups. Groups are defined as managers (MNG), employees (EMP), shareholders and investors (SHR), Capital Market Authority employees (CMA), and academics (ACD). A \*/\*\* indicates significance at the 5%/1% level respectively. Responses are based on a five-point Likert scale where 1= strongly disagree, 2= disagree, 3= neither agree nor disagree, 4= agree, and 5= strongly agree.

The test reveals one significant difference between the academics and employees groups related to Question 4.1. The employees group recorded the highest percentage of disagreement with this statement, as 21.2% (seven out of 33) expressed their disagreement (four of which indicated ‘strongly disagree’). This result could be due to the lack of awareness among the employees group regarding the importance of the issue or regarding the areas covered by companies’ other responsibilities, while, in contrast, the academics group seems to highly agree with this statement as 47 academics (out of 50) indicated their agreement (27 of whom strongly agreed) and only two academics indicated their disagreement (one of whom strongly disagreed) (see Appendix 8.3, Table 4).

### 8.4.5 Importance of Potential Benefits to Companies that can be achieved by Reporting CSR Information

This section reports the respondents' perspectives about the importance of a list of potential benefits to companies that could be obtained through providing CSR information. Table 8.7 (Panels A and B) presents responses concerning the perceived benefits. The K-W test results are presented in Panel A.

**Table 8.7: Level of Importance of Potential Benefits to Companies that can be achieved by Reporting CSR Information**

**Panel A: Means, Standard Deviations, and K-W test**

Q	Benefits	M	SD	Group Means					K-W p-value
				MNG	EMP	SHR	CMA	ACD	
5.1	Good reputation	4.66	0.63	4.75	4.42	4.67	4.77	4.70	0.40
5.2	Better relationships with stakeholders	4.36	0.74	4.44	4.21	4.33	4.46	4.40	0.31
5.3	Improved employee morale and loyalty	4.19	0.94	3.88	4.33	4.17	4.35	4.12	0.27
5.4	Improved access to capital and funding	4.15	0.82	4.13	4.03	4.33	4.23	4.02	0.07
5.5	Improved reputation with government and regulatory authorities	4.57	0.61	4.81	4.55	4.58	4.77	4.40	<b>0.04*</b>
5.6	Improved reputation with religious authorities	4.28	0.81	4.56	4.09	4.46	4.46	4.02	<b>0.00**</b>
5.7	Avoidance of media pressure	4.48	0.78	4.75	4.30	4.50	4.77	4.34	0.11
5.8	Enhanced customer support and loyalty	4.27	0.76	4.19	4.33	4.44	4.27	4.08	0.07

**Note:** This table shows the overall mean (M), standard deviation (SD) and group means for the respondents. The p-value for the Kruskal Wallis (K-W) test results shows significant differences across the groups' responses. Groups are defined as managers (MNG), employees (EMP), shareholders and investors (SHR), Capital Market Authority employees (CMA), and academics (ACD). A \*/\*\* indicates significance at the 5%/1% level respectively. Responses are based on a five-point Likert scale where 1= not at all important, 2= not important, 3= moderately important, 4= important, and 5= very important.

The mean scores presented in Table 8.7 (Panel A) show that respondents, in aggregate, share the same views towards the importance of the listed benefits to companies that could be achieved through providing CSR information. The K-W test reveals two differences between groups regarding two of the listed benefits.

Question 5.1 asked whether good reputation is considered an important benefit to companies that can be achieved by CSD. This benefit produced the highest mean score with 4.66. Question 5.5 is about improving reputation with government and regulatory authorities, and recorded the second highest mean score with 4.57. Also Question 5.6 is about improving

reputation with religious authorities recorded, in aggregate, a high level of agreement. The K-W test results show differences between groups on the level of importance attached by them towards Questions 5.5 and 5.6. However, as with some previous questions these differences could be regarded as due to relatively few untypical responses (see Appendix 8.3, Table 5) since all the group means show clear agreement in aggregate. The importance of companies' reputation is supported by the study of Hooghiemstra (2000) that found competitive advantages could be created by CSD information: thus, creating a positive reputation of the company could encourage people to trust the company and do business with it.

Respondents appear to share the same view of agreement, in aggregate, regarding Question 5.2, which is about having a better relationship between companies and their stakeholders. Some might argue that CSD can be viewed as a good connection channel between companies and stakeholders, in that, if this information is provided, the stakeholder will be satisfied with the company. The significance of Questions 5.7, which is about avoiding media pressure, was supported by previous literature which considered it to be one of the most important reasons that encouraged companies to be more socially responsible and to disclose their responsibilities (see, for example, Hooghiemstra, 2000).

Questions 5.3 and 5.4 which are about, respectively, improved employee morale and loyalty, and improved access to capital and funding, recorded the lowest mean scores with 4.19 and 4.15 respectively.

Ten M-W tests were performed to identify any significant differences between any pairs. The results are shown in Table 8.7 (Panel B).

The M-W test shows 12 significant differences across stakeholder groups regarding six listed benefits. The academics' group reported ten differences with other groups, while the other two different views were recorded between the CMA and employees groups. These differences occurred as noted above despite broad aggregate agreement being indicated by each group (see Appendix 8.3, Table 5).

**Table 8.7: Level of Importance of Potential Benefits to Companies that can be achieved by Reporting CSR Information**  
**Panel B: M-W test**

Q	Benefits	M-W p-value									
		Managers &				Employees &			Shareholders &		CMA & ACD
		EMP	SHR	CMA	ACD	SHR	CMA	ACD	CMA	ACD	
5.1	Good reputation	0.21	0.80	0.90	0.91	0.16	0.10	0.11	0.63	0.84	0.75
5.2	Better relationships with stakeholders	0.27	0.97	0.36	1.00	0.20	<b>0.04*</b>	0.16	0.33	0.96	0.25
5.3	Improved employee morale and loyalty	0.18	0.47	0.23	0.92	0.35	0.95	0.06	0.45	0.32	0.11
5.4	Improved access to capital and funding	0.55	0.40	0.45	0.23	0.08	0.18	0.68	0.95	<b>0.01**</b>	<b>0.05*</b>
5.5	Improved reputation with government and regulatory authorities	0.15	0.20	0.76	<b>0.02*</b>	0.79	0.17	0.23	0.24	0.11	<b>0.01**</b>
5.6	Improved reputation with religious authorities	0.13	0.75	0.86	<b>0.00**</b>	0.10	0.14	0.22	0.91	<b>0.00**</b>	<b>0.00**</b>
5.7	Avoidance of media pressure	0.15	0.21	0.73	0.11	0.61	<b>0.05*</b>	0.95	0.06	0.49	<b>0.03*</b>
5.8	Enhanced customer support and loyalty	0.64	0.44	0.97	0.26	0.76	0.51	<b>0.04*</b>	0.30	<b>0.01**</b>	0.24

**Note:** This table shows the p-values produced by a Mann-Whitney (M-W) test which indicates the difference between the responses of different pairs of groups. Groups are defined as managers (MNG), employees (EMP), shareholders and investors (SHR), Capital Market Authority employees (CMA), and academics (ACD). A \*/\*\* indicates significance at the 5%/1% level respectively. Responses are based on a five-point Likert scale where 1= not at all important, 2= not important, 3= moderately important, 4= important, and 5= very important.

#### 8.4.6 Importance of Potential Benefits to Society that can be achieved by Reporting CSR Information

This section investigates respondents' perspectives about the importance of a list of potential benefits to society that can be obtained by CSD information. Table 8.8 (Panels A and B) presents responses concerning the perceived benefits. The K-W test results are presented in Panel A.

**Table 8.8: Level of Importance of Potential Benefits to Society that can be achieved by Reporting CSR Information**

**Panel A: Means, Standard Deviations, K-W test**

Q	Benefits	M	SD	Group Means					K-W p-value
				MNG	EMP	SHR	CMA	ACD	
6.1	Serving society at large (public right to information)	4.40	0.72	4.56	4.06	4.31	4.65	4.52	<b>0.00**</b>
6.2	Serving customers	4.12	0.76	4.19	4.09	4.10	4.42	3.98	0.16
6.3	Guiding investment decisions	4.47	0.77	4.69	4.45	4.35	4.58	4.48	0.34
6.4	Protecting the environment	4.41	0.82	4.56	4.09	4.40	4.65	4.46	0.14
6.5	Raising awareness of social and environmental issues	4.40	0.86	4.56	4.09	4.37	4.73	4.42	0.09

**Note:** This table shows the overall mean (M), standard deviation (SD) and group means for the respondents. The p-value for the Kruskal Wallis (K-W) test results shows significant differences across the groups' responses. Groups are defined as managers (MNG), employees (EMP), shareholders and investors (SHR), Capital Market Authority employees (CMA), and academics (ACD). A \*/\*\* indicates significance at the 5%/1% level respectively. Responses are based on a five-point Likert scale where 1= not at all important, 2= not important, 3= moderately important, 4= important, and 5= very important.

The results of Table 8.8 (Panel A) show that respondents, in aggregate, broadly share the same views towards the importance of the listed benefits to society that can be achieved by CSD based on their mean scores (above 4). The K-W test results indicate one difference on the level of importance attached by groups to Question 6.1, which is about the benefit of serving society at large. However, the groups' means, which are clearly above 4, indicate, in aggregate, a broad level of importance respondents attached to this benefit.

Question 6.2 asked about the importance of the benefit of serving customers. This benefit recorded the lowest mean with 4.12. The comparative level of importance given to this benefit was similar to respondents' perspectives, in aggregate, for Questions 1.13, 2.5, 3.4, and 5.8<sup>115</sup>, as these questions attracted comparatively low levels of agreement or importance by respondents (some of them recorded the lowest level) within their questions' lists. In addition, this result of low level of priority given to the customers group was supported by the result of the content analysis for Saudi listed companies' annual reports in 2012 (see

<sup>115</sup> Question 1.13 asked whether the purpose of providing companies' annual report is to provide information for customers regarding the company's products, services and future prospects; Question 2.5 asked whether providing customer or product related information within companies' annual reports' was regarded as being important; Question 3.4 asked whether customers should have the right to information within companies' annual reports; and Question 5.8 asked whether enhanced customer support and loyalty is an important benefit to companies that could be achieved through CSD.



Chapter 7), as the information related to this category was almost non-existent when preparing companies' annual reports. Of course, these results do not imply that customers should be regarded as lacking importance compared to other stakeholders. It seems more likely that the relationship with customers is regarded as being best served through means other than reporting.

Questions 6.3 and 6.4, which are about, respectively, guiding investment decisions, and protecting the environment, recorded the highest mean score with 4.47 and 4.41 respectively. The result of Question 6.3 was not unexpected, as respondents attached a high level of agreement, previously, to Question 1.5, which asked if companies' management provide annual reports to assist potential investors in their investment decisions. The respondents showed broad agreement over this purpose as they might believe in investors' right to know about companies that they are going to invest in.

To see whether any two groups have any significant differences in perceptions, ten M-W tests were performed; the results are shown in Table 8.8 (Panel B).

**Table 8.8: Level of Importance of Potential Benefits to Society that can be achieved by Reporting CSR Information**

**Panel B: M-W test**

Q	Benefits	M-W p-value									
		Managers &				Employees &			Shareholders &		CMA & ACD
		EMP	SHR	CMA	ACD	SHR	CMA	ACD	CMA	ACD	
6.1	Serving society at large (public right to information)	<b>0.01**</b>	0.36	0.57	0.83	0.07	<b>0.00**</b>	<b>0.00**</b>	0.09	0.14	0.65
6.2	Serving customers	0.66	0.69	0.28	0.37	0.91	0.07	0.61	0.06	0.46	<b>0.01**</b>
6.3	Guiding investment decisions	0.36	0.14	0.91	0.44	0.49	0.27	0.82	0.08	0.29	0.31
6.4	Protecting the environment	0.13	0.87	0.48	0.85	0.09	<b>0.02*</b>	0.07	0.30	0.99	0.27
6.5	Raising awareness of social and environmental issues	0.14	0.58	0.33	0.56	0.25	<b>0.01**</b>	0.19	0.07	1.00	0.06

**Note:** This table shows the p-values produced by Mann-Whitney (M-W) test which indicate the difference between the responses different groups. Groups are defined as managers (MNG), employees (EMP), shareholders and investors (SHR), Capital Market Authority employees (CMA), and academics (ACD). A \*/\*\* indicates significance at the 5%/1% level respectively. Responses are based on a five-point Likert scale where 1= not at all important, 2= not important, 3= moderately important, 4= important, and 5= very important.

The results of Panel B reveal six significant differences that exist between groups regarding four listed benefits; Questions 6.1, 6.2, 6.4, and 6.5. These differences occurred as a result of different levels of importance attached by pairs of groups. For details of where the differences occurred see Appendix 8.3, Table 6.

#### 8.4.7 Agreement Regarding Factors that may Deter Companies from Reporting CSR Information

This section aims to find out to what extent participants agree/disagree over a list of possible factors that might deter or discourage companies from reporting CSR information. The findings of this question might be helpful in understanding impediments to reporting, and in shedding some light on possible ways to implement this kind of disclosure in Saudi Arabia. The K-W test was conducted, at first, to identify any significant differences between stakeholder groups. The respondents' results are presented in Table 8.9 (Panels A and B).

**Table 8.9: Level of Agreement regarding Factors that may Deter Companies' from Reporting CSR Information**

**Panel A: Means, Standard Deviations, and K-W test**

Q	Reasons	M	SD	Group Means					K-W p-value
				MNG	EMP	SHR	CMA	ACD	
7.1	Absence of legal or similar regulatory requirement	3.87	1.27	3.38	3.73	4.06	2.88	4.44	<b>0.00**</b>
7.2	Absence of accounting standards	3.42	1.14	2.88	3.24	3.52	2.85	3.90	<b>0.00**</b>
7.3	Lack of demand for this type of information	3.56	1.20	3.94	3.48	3.73	2.81	3.72	<b>0.04*</b>
7.4	Society's lack of awareness regarding this type of information	3.99	1.23	4.06	3.94	4.23	3.31	4.10	0.22
7.5	The cost of disclosing this type of information outweighs its benefits	2.75	1.27	2.81	2.94	3.00	1.77	2.84	<b>0.00**</b>
7.6	Sensitive nature of this type of information	2.62	1.25	3.06	2.67	3.06	1.69	2.48	<b>0.00**</b>
7.7	Administrative difficulties in preparing the reports	2.41	1.14	1.88	2.45	2.88	1.73	2.40	<b>0.00**</b>
7.8	Management does not appreciate its social responsibility	3.33	1.27	2.25	3.06	3.58	3.31	3.62	<b>0.01**</b>
7.9	The lack of explicit guidance from the Board of Directors	3.72	1.17	3.38	3.73	3.71	3.54	3.92	0.97
7.10	The objectives of the company emphasise its economic rather than social performance	4.02	1.15	3.94	4.15	3.98	3.54	4.26	0.48
7.11	Possible intervention by central authorities	2.88	1.22	3.38	2.97	3.37	1.96	2.64	<b>0.00**</b>

**Note:** This table shows the overall mean (M), standard deviation (SD) and group means for the respondents. The p-value for the Kruskal Wallis (K-W) test results shows significant differences across the groups' responses. Groups are defined as managers (MNG), employees (EMP), shareholders and investors (SHR), Capital Market Authority employees (CMA), and academics (ACD). A \*/\*\* indicates significance at the 5%/1% level respectively. Responses are based on a five-point Likert scale where 1= strongly disagree, 2= disagree, 3= neither agree nor disagree, 4= agree, and 5= strongly agree.

The results of this question produced the highest number of differences amongst different groups' perspectives compared to the rest of the questions in the questionnaire. The results shown in Table 8.9 (Panel A) reveal significant differences between groups regarding the majority of the listed factors (eight out of 11). Some of these differences are based on quite different opinions held by different groups, while others are based on different degrees of agreement/disagreement attached by groups' responses to these factors.

Questions 7.1, 7.4, and 7.10, which asked about: (i) absence of legal or similar regulatory requirement; (ii) society's lack of awareness regarding CSR information; and (iii) the objectives of the company emphasising its economic rather than social performance, recorded the highest mean scores among the listed factors with 3.87, 3.99, and 4.02 respectively. Also the groups' means for these questions are above the mid-point, 3, - except for the group's mean of the CMA regarding Question 7.1- which indicate, in aggregate, a level of agreement among groups towards these factors. The K-W test results show one significant difference occurred between the groups regarding Question 7.1. The broad level of agreement, in aggregate, attached to Question 7.10, which recorded the highest mean, could be understood as companies being perceived to reduce their costs as much as they can therefore restricting social responsibility and its reporting except, perhaps, for legal requirements (payments) such as Zakat or tax and pension data. Also there could be a "Friedman (1970) rationale" as he argued that managers are agents of the owners of the business and are responsible for conducting the business duties "which generally will be to make as much money as possible while conforming to their basic rules of society" (p.1). He stated that managers do not have the right to drive the firm to be socially responsible, as they "would be spending someone else's money for a general social interest" (p.2).

Questions 7.5, 7.6, 7.7, and 7.11, which asked about: (i) the cost of disclosing CSR information outweighing its benefits; (ii) the sensitive nature of CSR information; (iii) administrative difficulties in preparing the reports; and (iv) possible intervention by central authorities, recorded the lowest mean scores among the listed factors with 2.75, 2.62, 2.41, and 2.88 respectively. The K-W test results reveal differences among groups regarding these questions. Also, the mean scores for some groups are above the mid-point, 3, while others are lower in regard to the same factor; which indicates different perspectives held by groups towards these factors. It is also noticeable that the CMA group recorded the lowest mean scores in regard to these questions and all of them are below 3, which indicates disagreement attached to these factors by them.

The remaining Questions, 7.2, 7.3, 7.8, and 7.9, which asked about: (i) absence of accounting standards; (ii) lack of demand for this type of information; (iii) management not appreciating its social responsibility; and (iv) the lack of explicit guidance from the Board of Directors, recorded mean scores above the mid-point, 3, which indicates, in aggregate, a level of agreement. However, the results of the K-W test, as well as an inspection of the group means, show differences between groups regarding three of these factors. Some of the groups' mean scores are below 3 while other are above; which indicates different views held by groups in aggregate regarding these factors. Again, the CMA group recorded the lowest group's mean scores in regards to the first two questions (below 2), while managers recorded the lowest group mean regarding Questions 7.8 and 7.9.

From the results discussed above, it can be noted that the CMA group has recorded the lowest group mean for the majority of the listed factors (nine out of 11) with seven of them below the mid-point, 3, which is arguably a surprising finding. That is because if the participants of

this group do not consider the listed factors as reasons behind the non-disclosure of CSR information, one can ask what could be the reason for the lack of CSD or even the absence of CSD by Saudi companies? However, the answer to such a question could be that this group might believe if companies want to disclose CSR information no reason will stop them from doing that. However, it could be argued that if this official body, which is responsible for controlling and organising companies' activities and work in the country, believe in the importance of CSR disclosure, they should set more laws and requirements to force companies to become more socially and environmentally accountable, and thus disclose such responsibility to the public rather than leaving it to the company to make the decision on how much to information disclose, if any at all. In fact, as will be seen later in this chapter, the CMA group indicates, in aggregate, disagreement with Questions 11.1 and 11.2, which asked about whether CSR disclosures should remain voluntary.

To see whether any two groups have any significant differences in perceptions, ten M-W tests were performed; the results are shown in Table 8.9 (Panel B).

The results in Table 8.9 (Panel B) pointed out many differences between group participants related to the majority of the listed factors which might deter companies from CSD. For most of these differences (38 out of 41) the CMA group and/or academics group was/were party to these differences. Revisiting the individual questionnaire responses by individuals within groups could help in understanding the respondents' tendencies in the answers they gave to these factors (Appendix 8.3, Table 7). Some of these differences are based on different views held within different groups towards the questions, while others occurred as a result of different levels of agreement or disagreement attached by pairs of groups to the questions.

The next discussion will be mainly focused on differences which occurred because of different views held by groups.

**Table 8.9: Level of Agreement regarding Factors that may Deter Companies from Reporting CSR Information**  
**Panel B: M-W test**

Q	Reasons	M-W p-value									
		Managers &				Employees &			Shareholders&		CMA & ACD
		EMP	SHR	CMA	ACD	SHR	CMA	ACD	CMA	ACD	
7.1	Absence of legal or similar regulatory requirement	0.79	0.26	0.51	<b>0.02*</b>	0.24	<b>0.05*</b>	<b>0.00**</b>	<b>0.00**</b>	<b>0.04*</b>	<b>0.00**</b>
7.2	Absence of accounting standards	0.23	0.07	0.78	<b>0.00**</b>	0.70	0.23	<b>0.00**</b>	<b>0.01**</b>	<b>0.01**</b>	<b>0.00**</b>
7.3	Lack of demand for this type of information	<b>0.05*</b>	0.20	<b>0.03*</b>	0.16	0.38	0.13	0.39	<b>0.01**</b>	0.93	<b>0.02*</b>
7.4	Society's lack of awareness regarding this type of information	0.41	0.94	0.18	0.63	0.24	0.24	0.61	<b>0.03*</b>	0.46	0.07
7.5	The cost of disclosing this type of information outweighs its benefits	0.97	0.71	0.16	0.80	0.89	<b>0.00**</b>	0.76	<b>0.00**</b>	0.49	<b>0.00**</b>
7.6	Sensitive nature of this type of information	0.38	0.91	<b>0.01**</b>	0.19	0.13	<b>0.00**</b>	0.47	<b>0.00**</b>	<b>0.01**</b>	<b>0.01**</b>
7.7	Administrative difficulties in preparing the reports	0.09	<b>0.00**</b>	0.93	<b>0.03*</b>	0.10	<b>0.02*</b>	0.89	<b>0.00**</b>	<b>0.01**</b>	<b>0.00**</b>
7.8	Management does not appreciate its social responsibility	0.10	<b>0.00**</b>	<b>0.02*</b>	<b>0.00**</b>	0.14	0.42	0.14	0.55	0.77	0.52
7.9	The lack of explicit guidance from the Board of Directors	0.87	0.71	0.78	0.89	0.94	0.89	0.33	0.74	0.43	0.77
7.10	The objectives of the company emphasise its economic rather than social performance	0.3	0.96	0.78	0.33	0.33	0.16	<b>0.04*</b>	0.43	0.23	0.75
7.11	Possible intervention by central authorities	0.18	0.58	<b>0.01**</b>	<b>0.03*</b>	0.10	<b>0.00**</b>	<b>0.00**</b>	<b>0.00**</b>	<b>0.00**</b>	<b>0.00**</b>

**Note:** This table shows the p-values produced by a Mann-Whitney (M-W) test which indicates the difference between the responses of different pairs of groups. Groups are defined as managers (MNG), employees (EMP), shareholders and investors (SHR), Capital Market Authority employees (CMA), and academics (ACD). A \*/\*\* indicates significance at the 5%/1% level respectively. Responses are based on a five-point Likert scale where 1= strongly disagree, 2= disagree, 3= neither agree nor disagree, 4= agree, and 5= strongly agree.

The results of Questions 7.1, 7.2, and 7.3 indicate a number of significant differences between the CMA group and other groups; as their answers towards these factors reveal, in

aggregate, consistent levels of disagreement (disagree/strongly disagree) compared to the others (with the exception of the aggregate response by the managers group to Question 7.2 on accounting standards). This might reflect their belief in the sufficiency of the current requirements and the accounting standards applied in Saudi Arabia; also they might believe in the current demand for CSR information, or they might think there is nothing to stop companies from reporting their social responsibility if they wish. Another possible reason is that based on the absence of regulatory requirements, the CMA group's disagreement could be interpreted as rejecting potential criticism. The academics group seems to have a different view to the CMA group, as they attached consistent agreement (agree/strongly agree) to these factors. This might reflect academics' beliefs, from their theoretical perspective, that the requirement of the Saudi government for CSD is not enough and does not play a strong enough role in pushing companies to become more socially responsible. In addition, they do not seem to be satisfied with the current accounting standards, and also they acknowledge lack of demand for this type of information.

Question 7.4, regarding society's lack of awareness regarding CSR information, shows one difference in the level of agreement between shareholders/investors and the CMA group although both groups showed agreement in aggregate regarding this factor acting to deter CSR reporting. As previously mentioned, this reason recorded the second highest mean among the listed factors, which might reflect the real situation in Saudi society. Lack of awareness of such an issue among the society reflects an arguable need for the efforts of all parties (including, the government, business institutions, academics, pressure groups, and people with an interest in social and environmental matters) to spread awareness of this concept and help people in society to start caring about companies' social responsibilities.

The results of Question 7.5 demonstrate that most respondents think the benefits of CSR information outweighs its cost but only marginally, however the CMA group clearly think the benefits outweigh the cost as the majority of this group indicate their disagreement with the statement. The employees group seem to perceive things differently with regard to this factor, as 48.5% of them indicate their agreement while 36.4% of them indicate their disagreement, which might reflect their lack of awareness regarding the issue.

The results of Question 7.6 show that the majority of the respondents indicate in aggregate their disagreement that the sensitivity of CSR information is an impediment to reporting, the CMA group clearly do not in aggregate agree with this factor as 92.3% of them recorded disagree/strongly disagree. They might underestimate the views of others, or perhaps they think it should not be an impediment. It is noticeable that the managers group held different opinions to other respectively, as 50% of them indicate their agreement (agree/strongly agree) with this reason.

The results of Question 7.7 indicate different levels of disagreement attached by groups to administrative difficulties in preparing CSR reports. The majority of respondents from most of the groups indicate their disagreement (disagree/strongly disagree), particularly respondents from the managers and the CMA groups. These responses may be seen as encouraging for those who wish to see more CSR and the CMA's disagreement might reflect their confidence in companies' managerial ability to prepare such reports.

The results of Question 7.8 show that the managers' group, in aggregate, held different views, compared to other groups, regarding the suggestion that management does not appreciate its social responsibility. The majority of managers indicated their disagreement



(disagree/ strongly disagree). This could be due to the fact that some managers, at least, do care about and take into account the importance of such issues, and they might also be the managers of those Saudi companies which are already providing CSR information. Also they might deny this reason because they do not want to be seen as having less awareness of the importance of such issues, and/or do not want to be viewed as being remiss in their administrative performance or their social responsibility roles. On the other hand, participants from the other groups believe in this factor. It is worth mentioning that the agreement of the shareholders/investors group might indicate that they see the management as the party who should bear the business's social responsibility, and see the lack of such disclosure as the managers' responsibility.

The result of Question 7.11 shows significant differences between groups; as academics and the CMA groups held different views to the other groups. The majority of their respondents indicate their disagreement (disagree/strongly disagree) with possible intervention by central authorities as a reason behind not disclosing CSR information, while the managers and shareholders/investors show limited aggregate agreement. Academic and CMA views regarding this factor might be based on that the governmental responsible body already determined the information that companies have to provide within their annual reports (e.g. tax and Zakat, and employees information), and the rules they have to follow (e.g. business guidelines), thus any additional information provided by companies will not affect them negatively.

#### **8.4.8 Agreement Regarding Statements Related to CSR and Disclosure**

This section explores respondents' attitudes towards a list of different aspects and ideas related to CSR and CSD, which might help shed more light on the issue under investigation.

Table 8.10 (Panels A and B) presents the analysis of the participants' answers. In addition, some more statements were provided to specific groups; these were considered to relate to them while being inappropriate for the other groups. These extra statements are presented in Table 8.10 (Panel C).

**Table 8.10: Level of Agreement regarding Statements Related to CSR and Disclosure**  
**Panel A: Means, Standard Deviations, and K-W test**

Q	Statements	M	SD	Group Means					K-W p-value
				MNG	EMP	SHR	CMA	ACD	
8.1	Management should contribute to a company's social and environmental responsibility	4.63	0.57	4.75	4.52	4.60	4.85	4.58	0.19
8.2	Achieving greater environmental protection, even if it sometimes leads to less profit, should be accepted by a company	4.32	0.79	4.50	4.00	4.33	4.85	4.20	<b>0.00**</b>
8.3	Economic development should equitably meet development and environmental needs of present and future generations	4.34	0.64	4.56	4.15	4.40	4.73	4.14	<b>0.00**</b>
8.4	Social responsibility and environmental protection is an Islamic duty, which must be undertaken to protect human health and rights	4.55	0.59	4.75	4.58	4.60	4.77	4.32	<b>0.00**</b>
8.5	Some adverse effects on the environment from the production of goods and services are unavoidable	3.40	1.35	2.63	3.91	3.42	3.23	3.38	0.13
8.6	The central authorities should regulate what companies disclose in terms of social and environmental performance	4.53	0.69	4.63	4.36	4.46	4.58	4.66	0.14
8.7	The social and environmental responsibility of business is to increase its profits	3.70	1.08	3.38	3.64	3.60	4.08	3.76	0.25
8.8	Stakeholders do use corporate social responsibility information disclosed by companies to make their decisions	3.40	1.09	3.69	3.36	3.77	3.46	2.90	<b>0.00**</b>
8.9	Reporting of social and environmental information is a subject to which I have given substantial consideration	4.19	0.84	4.63	3.97	4.10	4.54	4.10	<b>0.00**</b>
8.10	Government should produce more codes and laws to force companies to be more socially responsible	4.55	0.77	4.81	4.24	4.56	4.46	4.70	0.09
8.11	Size of a company should affect the amount of corporate social responsibility disclosure (e.g. large companies should provide more information and vice versa)	3.72	1.31	4.56	3.76	3.29	3.73	3.86	<b>0.00**</b>
8.12	A company's economic sector is likely to affect the type and the amount of social responsibility information disclosed	3.93	0.99	4.44	3.76	3.69	4.00	4.08	<b>0.05*</b>
8.13	Managers tend to hide bad news	4.36	0.88	4.06	4.15	4.42	4.58	4.40	0.55
8.14	In future, different stakeholders are more likely to use corporate social responsibility information when making decisions	3.84	0.75	3.94	3.70	3.90	3.65	3.92	0.76
8.15	Managers tend to report social responsibility information that mainly serves powerful stakeholders	3.96	0.98	3.75	3.76	4.10	4.19	3.90	0.30
8.16	Managers tend to report social responsibility information that serves all stakeholder groups equally	2.67	1.15	2.94	3.00	2.71	2.00	2.68	<b>0.01**</b>

**Note:** This table shows the overall mean (M), standard deviation (SD) and group means for the respondents. The p-value for the Kruskal Wallis (K-W) test results shows significant differences across the groups' responses. Groups are defined as managers (MNG), employees (EMP), shareholders and investors (SHR), Capital Market Authority employees (CMA), and academics (ACD). A \*/\*\* indicates significance at the 5%/1% level respectively. Responses are based on a five-point Likert scale where 1= strongly disagree, 2= disagree, 3= neither agree nor disagree, 4= agree, and 5= strongly agree.

The vast majority of the overall results indicate, in aggregate, a level of agreement between groups regarding these statements. The results of the K-W test show statistically significant differences on the level of agreement between groups towards eight statements.

Question 8.1, which is about management contributing to a company's social and environmental responsibility, generated the highest mean score with 4.63. Such a finding is arguably consistent with a need to disclose information about this responsibility to the public.

Questions 8.4 and 8.10, which are about, respectively, whether social responsibility and environmental protection is an Islamic duty, which must be undertaken to protect human health and rights; and whether the government should introduce more codes and laws to force companies to become more socially responsible, indicate, in aggregate, an overwhelming agreement among respondents towards them, as they recorded the second and third highest mean scores with 4.55 for both of them. Also Question 8.6 which is about whether the central authorities should regulate what companies disclose in terms of social and environmental performance, indicate, in aggregate, an overwhelming agreement among respondents towards it, as it recorded a high mean score with 4.53. The general trend by respondents in answering Questions 8.6 and 8.10 indicates a desire amongst different groups to see more socially responsible behaviour by companies, which needs to be enforced and controlled by codes and laws provided by the government. Respondents' answers indicate their beliefs of the insufficiency of current requirements. It is important to mention that this result supports the finding of Question 7.1, which was about whether the absence of legal or similar regulatory requirements is considered a factor that may deter companies from providing CSR information. In fact, 131 (out of 177) respondents from different groups recorded their

agreement (agree/strongly agree) with the statement, and 165 respondents from the same sample recorded their agreement with Question 8.10 (see Appendix 8.3, Table 8).

Questions 8.8, 8.9 and 8.14 are about: (i) stakeholders' views regarding their current use of CSR information in making decisions; (ii) the importance of such information to them; and (iii) the possibility of using such information by different stakeholders in future to make decisions. Question 8.8 shows some differences in opinions regarding these matters, as observing groups' mean responses demonstrate that the academics perceive this question differently as their mean score is below the mid-point, 3 (2.90). Question 8.9 shows different levels of agreement between groups regarding it, and Question 8.14 also indicates, in aggregate, a level of aggregate agreement between groups.

Questions 8.11 and 8.12, which are about the effect of companies' characteristics, size of the company and the economic sector, on the amount of their CSD, reveal different levels of agreement among respondents based on the K-W test results, with particularly strong agreement from the managers' group. The literature review presented in Chapter two demonstrated that the company's size was considered to be an important factor for CSD (see, for example, Cowen et al., 1987; Gray et al., 1995a; Gray and Bebbington, 2001; Gray et al., 2001; Haniffa and Cooke, 2005; Daub, 2007; Bayoud et al., 2012a; Razak, 2015); also the economic sector was considered to have an important effect on CSD (see, for example, Cowen et al., 1987; Patten, 1991; Hackston and Milne, 1996; Adams et al., 1998; Bayoud et al., 2012a).

Question 8.13, which is about managers tending to hide bad news, generates, in aggregate, an overwhelming agreement among groups.

It is worth noting that the thinking behind the last two Questions, 8.15 and 8.16, is to determine which variant of stakeholder theory- which has been adopted in this thesis - appears to be supported by the respondents. Question 8.15 is about managers tending to report CSR information that mainly serves powerful stakeholders, while Question 8.16 is about managers tending to report CSR information that serves all stakeholder groups equally. The results indicate, in aggregate, a level of agreement among respondents with the former question and aggregate disagreement with the latter. These results may lead us to assume that different stakeholder groups believe the behaviour of managers of Saudi listed companies is consistent with the managerial variant of stakeholder theory. This finding was also supported by the results of the content analysis conducted in this research (see Chapter 7).

To see whether any two groups have any significant differences in perceptions, ten M-W tests were performed; the results are shown in Table 8.10 (Panel B) next.

**Table 8.10: Level of Agreement regarding Statements Related to CSR and Disclosure  
Panel B: M-W test**

Q	Statements	Statements									
		Managers &				Employees &			Shareholders &		CMA & ACD
		EMP	SHR	CMA	ACD	SHR	CMA	ACD	CMA	ACD	
8.1	Management should contribute to a company's social and environmental responsibility	0.29	0.32	0.46	0.33	0.82	<b>0.04*</b>	0.80	<b>0.04*</b>	0.97	<b>0.04*</b>
8.2	Achieving greater environmental protection, even if it sometimes leads to less profit, should be accepted by a company	0.08	0.66	<b>0.04*</b>	0.07	0.08	<b>0.00**</b>	0.59	<b>0.00**</b>	0.08	<b>0.00**</b>
8.3	Economic development should equitably meet development and environmental needs of present and future generations	0.08	0.40	0.27	<b>0.01**</b>	0.18	<b>0.00**</b>	0.56	<b>0.02*</b>	<b>0.02*</b>	<b>0.00**</b>
8.4	Social responsibility and environmental protection is an Islamic duty, which must be undertaken to protect human health and rights	0.50	0.37	0.90	<b>0.01**</b>	0.85	0.34	<b>0.02*</b>	0.21	<b>0.01**</b>	<b>0.00**</b>
8.5	Some adverse effects on the environment from the production of goods and services are unavoidable	0.07	0.18	0.28	0.12	0.07	0.26	<b>0.02*</b>	0.90	0.72	1.00
8.6	The central authorities should regulate what companies disclose in terms of social and environmental performance	0.33	0.39	0.62	0.56	0.76	0.12	<b>0.05*</b>	0.12	<b>0.05*</b>	1.00
8.7	The social and environmental responsibility of business is to increase its profits	0.56	0.95	0.22	0.92	0.50	0.22	0.74	<b>0.03*</b>	0.48	<b>0.04*</b>
8.8	Stakeholders do use corporate social responsibility information disclosed by companies to make their decisions	0.38	0.88	0.32	<b>0.03*</b>	0.11	0.71	0.07	0.36	<b>0.00**</b>	<b>0.02*</b>
8.9	Reporting of social and environmental information is a subject to which I have given substantial consideration	<b>0.02*</b>	<b>0.01**</b>	0.55	<b>0.00**</b>	0.80	<b>0.03*</b>	0.88	<b>0.01**</b>	0.57	<b>0.00**</b>
8.10	Government should produce more codes and laws to force companies to be more socially responsible	<b>0.04*</b>	0.24	0.11	0.55	0.14	0.46	<b>0.02*</b>	0.55	0.36	0.15
8.11	Size of a company should affect the amount of corporate social responsibility disclosure (e.g. large companies should provide more information and vice versa)	0.08	<b>0.00**</b>	<b>0.02*</b>	<b>0.03*</b>	0.06	0.69	0.96	0.10	<b>0.01**</b>	0.69
8.12	A company's economic sector is likely to affect the type and the amount of social responsibility information disclosed	0.09	<b>0.01**</b>	0.14	0.14	0.52	0.62	0.37	0.15	<b>0.02*</b>	0.76
8.13	Managers tend to hide bad news	0.90	0.34	0.21	0.31	0.30	0.19	0.25	0.63	0.85	0.77
8.14	In future, different stakeholders are more likely to use CSR information when making decisions	0.36	0.89	0.80	0.94	0.31	0.62	0.17	0.78	0.89	0.84
8.15	Managers tend to report social responsibility information that mainly serves powerful stakeholders	0.90	0.47	0.45	0.98	0.22	0.17	0.90	0.58	0.13	<b>0.02*</b>
8.16	Managers tend to report social responsibility information that serves all stakeholder groups equally	0.83	0.51	<b>0.04*</b>	0.43	0.20	<b>0.00**</b>	0.16	<b>0.00**</b>	0.72	<b>0.00**</b>

**Note:** This table shows the p-values produced by a Mann-Whitney (M-W) test which indicates the difference between the responses of different pairs of groups. Groups are defined as managers (MNG), employees (EMP), shareholders and investors (SHR), Capital Market Authority employees (CMA), and academics (ACD). A \*/\*\* indicates significance at the 5%/1% level respectively. Responses are based on a five-point Likert scale where 1= strongly disagree, 2= disagree, 3= neither agree nor disagree, 4= agree, and 5= strongly agree.

The results of the M-W test reveal significant differences among different pairs of groups regarding almost all statements in this question. The vast majority of differences occurring between pairs of groups are due to different levels of agreement attached to these statements.

The results of Question 8.8, which is about the use of CSR information by stakeholders to make decisions, indicate three significant differences between the academics group and other groups. On one hand, unlike other groups academics do not, in aggregate, believe in the use of CSR information by stakeholders to make their decision; as 50% of them recorded their disagreement, while just 30% of them indicate their agreement (agree/strongly agree) with the statement. On the other hand, the majority of managers, shareholders/investors, and the CMA respondents believe in the use of CSR information by stakeholders as 62.5%, 69.2%, and 73% of them respectively indicate their agreement (agree/strongly agree) with the statement. Academics' attitudes to this statement might be based on their assessment of the use of CSR information by different stakeholder groups; it could be related to some scepticism about the influence of CSR information; or it could perhaps be argued that it is because of their lack of practical business knowledge.

The results of Question 8.16 show differences between the CMA group and all other groups. The differences which occurred between them and each of the academics, shareholders/investors, and managers groups are based on different levels of aggregate disagreement recorded by each group towards the statement. While the employees group, in aggregate, indicated a neutral response.

From the above statements, it could be seen that, in some cases, the participants did not share the same views about these statements. However, it seemed that there was a general trend

amongst all groups' participants to accept the idea of increasing CSD and towards believing in managerial social responsibilities.

There were four versions of the questionnaire and, although all of the questions and statements reported so far in this chapter were common to all of them, extra statements were added in Question 8, which related to each specific group as it seemed inappropriate to ask all groups these statements. The statements are presented in Panel C of Table 8.10.

**Table 8.10: Level of Agreement regarding Statements related to CSR and Disclosure  
Panel C: Additional Statement to some Groups**

Statements/ Groups		Mean	SD
<b>Shareholders and other Investors</b>			
8.17	I am familiar with the term corporate social responsibility	4.13	0.91
8.18	I appreciate receiving this kind of information from companies	4.44	0.67
8.19	Corporate social responsibility information affects my investment decisions	4.08	0.86
8.20	My investment decisions mainly depend on a company's financial performance	4.25	0.86
8.21	I tend to invest in companies with a good social reputation	4.35	0.84
<b>The Capital Market Authority employees</b>			
8.22	Saudi Arabia should follow regulatory developments in other countries and seek to adopt best practices	4.88	0.33
<b>Academics</b>			
8.23	Teaching students about corporate social responsibility will affect their behaviour towards corporate social responsibility disclosure as managers or employees in the future	4.60	0.67
8.24	Teaching students about corporate social responsibility will increase the awareness of this topic in the whole society	4.64	0.53
8.25	Academics could play a vital role in pushing companies and managers to be more socially responsible, by conducting research regarding corporate social responsibility and disclosure in Saudi Arabia	4.84	0.42

**Note:** This table shows the mean (M), standard deviation (SD) for the specific group.

The mean scores for all of these questions show, in aggregate, overwhelming support for these questions amongst the groups' respondents. The researcher provided the shareholders/ investors participants with five extra statements to indicate the extent of their agreement towards their present understanding and attitudes towards CSR and disclosure. Question 8.17 asked them to indicate their familiarity with the term CSR; 80.8% of the group indicated their agreement (agree/strongly agree) regarding their knowledge of the term, CSR, which reveals a general knowledge of the phenomenon among this group. Question 8.18 asked whether they appreciate receiving CSR information from companies, and 90.4% of respondents did. Question 8.19 asked whether CSR information affects their investment decisions; 80.8% of



them indicated their agreement (agree/strongly agree). The result of this question supports the previous question's contribution; as it is evident that respondents are looking for such information as it has an effect on their decisions. Question 8.20 asked whether their investment decisions mainly depend on a company's financial performance; 84.6% of the participants indicated their agreement (agree/strongly agree). The result of this question might be unexpected, based on the respondents' answers to the previous two questions, as it appears to conflict; however, the next question's finding might explain their attitudes to their investment decisions. The last Question 8.21, asked this group if they tend to invest in companies with a good social reputation, and the result reveals that 84.6% of them indicated their agreement (agree/strongly agree). It could be argued that companies that care about and disclose their CSR projects tend to be successful companies based on their profits. A proactive approach to CSR may be regarded as a proxy for a good approach to management generally (Werther Jr and Chandler, 2010). Most shareholders/investors generally tend to invest in companies with a good reputation, which might explain the link between the last two questions.

The researcher provided the CMA group with one additional statement, Question 8.22, which asked whether Saudi Arabia should follow the regulatory developments of other countries and seek to adopt best practices. All respondents of this group indicated their agreement with this suggestion (23 out of 26 selected strongly agree). This might reflect the fact of the weak, or lack of sufficient, current requirements set by the CMA body; which contrasted with their previous answer on Question 7.1, which asked whether the absence of legal or similar regulatory requirement may deter companies' from reporting CSR information; 15

respondents (out of 26) indicated their disagreement with the statement (four of whom strongly disagreed).

The researcher provided the academics' group with three extra statements related to their professional context. Question 8.23 asked if teaching students about CSR will affect their behaviour towards CSD as managers or employees in the future, Question 8.24 asked whether teaching students about CSR will increase the awareness of this topic in society as a whole; and Question 8.25 asked whether academics could play a vital role in pushing companies and managers to become more socially responsible, by conducting research regarding CSR and disclosure in Saudi Arabia. 94%, 98%, and 98% respectively of academics indicated their agreement (agree/strongly agree) with these questions. Academics' attitudes in answering these questions arguably reflect the importance of, and the need for, enhanced teaching about CSR and disclosure, and the need to conduct more research about this issue in Saudi Arabia.

#### **8.4.9 Agreement Regarding Possible Methods that can be used to Disclose CSR Information**

This section explores respondents' level of agreement regarding the perceived usefulness of a list of possible methods that can be used to disclose CSR information when reading annual reports. Table 8.11 (Panels A and B) presents the results related to this question. The K-W test results are presented in Panel A.

The results of Table 8.11 (Panel A) show, in aggregate, an overall agreement between groups regarding the listed methods and a general view that all the methods are useful.

The M-W test was conducted to find out which pairs of groups have significant differences among them; the results, shown in Table 8.11 (Panel B), reveal some differences on the level of agreement recorded by pairs of groups regarding all of the listed methods.

**Table 8.11: Level of Agreement regarding Possible Methods that can be used to Disclose CSR Information**

**Panel A: Means, Standard Deviations, and K-W test**

Q	Methods	M	SD	Group Means					K-W P-value
				MNG	EMP	SHR	CMA	ACD	
9.1	Narrative descriptions	3.97	0.87	4.19	4.06	3.71	4.27	3.94	0.07
9.2	Physical quantities	4.20	0.74	4.38	4.18	4.23	4.35	4.04	0.10
9.3	Monetary (financial terms)	4.16	0.77	4.44	4.36	4.06	4.38	3.94	<b>0.01**</b>
9.4	Graphical information	4.17	0.74	4.19	4.18	4.10	4.42	4.10	0.09
9.5	Pictorial representation	4.03	0.92	3.94	3.94	4.10	4.50	3.82	<b>0.00**</b>

**Note:** This table shows the overall mean (M), standard deviation (SD) and group means for the respondents. The p-value for the Kruskal Wallis (K-W) test results shows significant differences across the groups' responses. Groups are defined as managers (MNG), employees (EMP), shareholders and investors (SHR), Capital Market Authority employees (CMA), and academics (ACD). A \*/\*\* indicates significance at the 5%/1% level respectively. Responses are based on a five-point Likert scale where 1= strongly disagree, 2= disagree, 3= neither agree nor disagree, 4= agree, and 5= strongly agree.

**Table 8.11: Level of Agreement regarding Possible Methods that can be used to Disclose CSR Information**

**Panel B: M-W test**

Q	Methods	M-W p-value									
		Managers &				Employees &			Shareholders &		CMA & ACD
		EMP	SHR	CMA	ACD	SHR	CMA	ACD	CMA	ACD	
9.1	Narrative descriptions	0.63	0.14	0.72	0.09	0.16	0.33	0.18	<b>0.03*</b>	0.51	<b>0.02*</b>
9.2	Physical quantities	0.73	0.64	0.65	<b>0.04*</b>	0.95	0.40	0.10	0.30	0.07	<b>0.01**</b>
9.3	Monetary (financial terms)	0.70	<b>0.17</b>	1.00	<b>0.01**</b>	0.19	0.66	<b>0.00**</b>	0.11	0.17	<b>0.00**</b>
9.4	Graphical information	0.81	0.50	0.42	0.12	0.63	0.22	0.20	0.06	0.37	<b>0.00**</b>
9.5	Pictorial representation	0.99	0.41	0.06	0.23	0.34	<b>0.03*</b>	0.22	0.20	<b>0.01**</b>	<b>0.00**</b>

**Note:** This table shows the p-values produced by a Mann-Whitney (M-W) test which indicates the difference between the responses of different pairs of groups. Groups are defined as managers (MNG), employees (EMP), shareholders and investors (SHR), Capital Market Authority employees (CMA), and academics (ACD). A \*/\*\* indicates significance at the 5%/1% level respectively. Responses are based on a five-point Likert scale where 1= strongly disagree, 2= disagree, 3= neither agree nor disagree, 4= agree, and 5= strongly agree.

#### 8.4.10 Agreement Regarding Suitable Locations to Disclose CSR Information

This section investigates respondents' extent of agreement regarding a set of suitable locations to disclose CSR information pertaining to Saudi organisations' social responsibilities. Table 8.12 (Panels A and B) provides the analysis of the participants' answers. The results of the K-W test are presented in Panel A.

**Table 8.12: Level of Agreement regarding Suitable Locations to Disclose CSR Information**

**Panel A: Means, Standard Deviations, and K-W test**

Q	Locations	M	SD	Group Means					K-W p-value
				MNG	EMP	SHR	CMA	ACD	
10.1	In a separate section entitled 'social responsibility' (or equivalent) in the main annual report	4.18	0.83	4.06	4.00	4.15	4.54	4.18	0.18
10.2	In a special separate booklet (e.g. social responsibility report; sustainability report)	3.82	1.02	4.06	3.91	3.75	3.69	3.82	0.43
10.3	In the directors' statement within the annual report	3.87	0.86	3.50	3.61	4.10	4.12	3.80	<b>0.03*</b>
10.4	In the notes to the financial statements within the annual report	3.67	1.00	3.56	3.15	4.04	3.85	3.56	<b>0.00**</b>
10.5	Included in the Chief Executive Officer or Chairman's statement within the annual report	3.03	1.22	2.63	3.24	3.37	2.46	2.98	<b>0.01**</b>
10.6	In any other section within the annual report	2.76	0.93	2.56	2.97	2.98	2.58	2.58	0.07

**Note:** This table shows the overall mean (M), standard deviation (SD) and group means for the respondents. The p-value for the Kruskal Wallis (K-W) test results shows significant differences across the groups' responses. Groups are defined as managers (MNG), employees (EMP), shareholders and investors (SHR), Capital Market Authority employees (CMA), and academics (ACD). A \*/\*\* indicates significance at the 5%/1% level respectively. Responses are based on a five-point Likert scale where 1= strongly disagree, 2= disagree, 3= neither agree nor disagree, 4= agree, and 5= strongly agree.

The results of Table 8.12 (Panel A) show, in aggregate, a level of agreement between groups regarding the first four listed possible locations for CSD. The K-W test show differences among groups regarding three Questions, 10.3, 10.4, and 10.5, which were about: whether providing CSR information in the directors' statement within the annual report; in the notes to the financial statements within the annual report; and in the Chief Executive Officer's or Chairman's statement within the annual report are considered a suitable locations.

Question 10.1, which is about the use of a separate section entitled 'social responsibility' in the main annual report, recorded the highest mean score with 4.18. This could be attributed to the fact that different stakeholders were familiar with the annual report required by law and, in most cases, it was the only report provided by companies which included CSR information. Question 10.2 was about the use of a special separate booklet also generating, in aggregate, a level of agreement between groups.

The mean score as well as groups' means for question 10.6– all below the mid-point, 3 - which is about CSD being included in any other section within the annual report indicates, in aggregate, disagreement among groups towards this suggestion.

The second stage was to perform ten M-W tests to identify which two pairs of groups perceive the questions differently; the results are demonstrated in Table 8.12 (Panel B).

**Table 8.12: Level of Agreement regarding Suitable Locations to Disclose CSR Information**

**Panel B: M-W test**

Q	Locations	M-W p-value									
		Managers &				Employees &			Shareholders &		CMA & ACD
		EMP	SHR	CMA	ACD	SHR	CMA	ACD	CMA	ACD	
10.1	In a separate section entitled 'social responsibility' (or equivalent) in the main annual report	0.71	0.67	0.36	0.66	0.99	0.07	0.79	<b>0.02*</b>	0.62	<b>0.02*</b>
10.2	In a special separate booklet (e.g. social responsibility report; sustainability report)	0.74	0.20	0.38	0.12	0.23	0.50	0.10	0.84	0.88	0.71
10.3	In the directors' statement within the annual report	0.50	<b>0.02*</b>	<b>0.04*</b>	0.19	0.10	0.14	0.97	0.85	<b>0.01**</b>	<b>0.04*</b>
10.4	In the notes to the financial statements within the annual report	0.35	0.08	0.31	0.97	<b>0.00**</b>	<b>0.04*</b>	0.20	0.57	<b>0.00**</b>	0.08
10.5	Included in the Chief Executive Officer or Chairman's statement within the annual report	0.12	<b>0.04*</b>	0.66	0.22	0.74	<b>0.03*</b>	0.20	<b>0.00**</b>	<b>0.03*</b>	<b>0.05*</b>
10.6	In any other section within the annual report	0.11	0.06	0.52	0.75	0.89	0.11	0.06	0.10	<b>0.01**</b>	0.45

**Note:** This table shows the p-values produced by a Mann-Whitney (M-W) test which indicates the difference between the responses of different pairs of groups. Groups are defined as managers (MNG), employees (EMP), shareholders and investors (SHR), Capital Market Authority employees (CMA), and academics (ACD). A \*/\*\* indicates significance at the 5%/1% level respectively. Responses are based on a five-point Likert scale where 1= strongly disagree, 2= disagree, 3= neither agree nor disagree, 4= agree, and 5= strongly agree.

The M-W test results reveal 15 statistically significant differences between pairs of groups in regards to five listed possible locations for CSD. All these differences involved either the CMA group (eight differences) or the shareholders/investors group (nine differences) or both. The majority of these differences occurred as a reason of different level of agreement

attached to these locations by each group, except the differences which occurred regarding Question 10.5. The results indicate different views held by groups regarding providing CSR information in the Chief Executive Officer or Chairman's statement; 57.7% and 50% respectively of the CMA and managers groups indicate their disagreement (disagree/strongly disagree) with this location, while in contrast 57.7% and 54.6% respectively of shareholders/investors and employees groups recorded their agreement (agree/strongly agree) with this location (see Appendix 8.3, Table 10).

#### **8.4.11 Agreement Regarding Possible Frameworks by which CSR Information should be Disclosed**

This section seeks to find out respondents' level of agreement regarding a list of possible regulatory frameworks by which CSR information should be disclosed with reference to Saudi companies. Table 8.13 (Panels A and B) illustrates the analysis of participants' answers. The K-W test results are presented in Panel A.

**Table 8.13: Level of Agreement regarding Possible Frameworks by which CSR Information should be disclosed**

##### **Panel A: Means, Standard Deviations, and K-W test**

Q	Mechanisms	M	SD	Group Means					K-W p-value
				MNG	EMP	SHR	CMA	ACD	
11.1	It should remain totally voluntary for companies	1.93	1.19	2.25	2.52	2.08	1.42	1.56	<b>0.00**</b>
11.2	It should remain voluntary but should be encouraged by the issuing of recommended codes of practice by regulatory agencies.	2.40	1.31	2.75	3.36	2.38	1.73	2.02	<b>0.00**</b>
11.3	It should be mandatory for companies but with wide discretion given as to the detail disclosed	3.69	1.20	3.06	3.18	3.94	3.62	4.00	<b>0.03*</b>
11.4	It should be mandatory for companies with specified minimum levels of reporting depending on company size	3.88	1.12	3.63	3.64	3.96	4.08	3.94	0.78
11.5	It should be mandatory for companies with specified minimum levels of reporting depending on economic sector	4.10	1.00	3.75	3.91	4.06	4.27	4.28	0.29

**Note:** This table shows the overall mean (M), standard deviation (SD) and group means for the respondents. The p-value for the Kruskal Wallis (K-W) test results shows significant differences across the groups' responses. Groups are defined as managers (MNG), employees (EMP), shareholders and investors (SHR), Capital Market Authority employees (CMA), and academics (ACD). A \*/\*\* indicates significance at the 5%/1% level respectively. Responses are based on a five-point Likert scale where 1= strongly disagree, 2= disagree, 3= neither agree nor disagree, 4= agree, and 5= strongly agree.

The results of Table 8.13 (Panel A) show, in aggregate, a high level of disagreement between groups regarding voluntary reporting, while revealing, in aggregate, a high level of agreement regarding the mandatory reporting of CSR. The K-W test results show significant differences among groups' perspectives regarding voluntary reporting, Question 11.1 and Question 11.2, as well as showing a significant difference on the level of agreement between groups regarding the first listed mandatory mechanism, Question 11.3.

Questions 11.4 and 11.5, which are about, respectively, CSR disclosures being mandatory for companies with specified minimum levels of reporting depending on company size; and being mandatory for companies with specified minimum levels of reporting depending on economic sector, recorded, in aggregate, a level of agreement between groups as they recorded the highest mean scores with 3.88 and 4.10 respectively. Such mandatory mechanisms (including Question 11.3) would impose more responsibility on the CMA, as the official body that is responsible for regulating business disclosures, to introduce appropriate rules.

To see whether any two groups have any significant differences in perceptions, ten M-W tests were performed; the results are shown in Table 8.13 (Panel B).

The M-W test results demonstrate 12 significant differences among pairs of groups regarding four of the listed mechanisms. The employees' group presents one pair for seven of these differences, and the CMA group presents one pair of the rest of them. The majority of these differences occurred as a result of different levels of agreement/disagreement attached by different groups to these mechanisms, except for the differences which occurred between employees group with other groups regarding Question 11.2 was based on different views

held by them. The majority of employees recorded their agreement (agree/strongly agree) that CSR information should remain voluntary but should be encouraged by regulatory agencies, while the majority of shareholders/investors, the CMA, and academics groups indicate their disagreement (disagree/strongly disagree) with this mechanism. Employees supporting voluntary reporting indicate their inconsistency in their answers as they reveal, in aggregate, their agreement (agree/strongly agree) with the three mandatory reporting mechanisms listed in the question.

**Table 8.13: Level of Agreement regarding Possible Frameworks by which CSR Information should be disclosed**

**Panel B: M-W test**

Q	Mechanisms	M-W p-value									
		Managers &				Employees &			Shareholders &		CMA & ACD
		EMP	SHR	CMA	ACD	SHR	CMA	ACD	CMA	ACD	
11.1	It should remain totally voluntary for companies	0.51	0.72	<b>0.03*</b>	0.12	0.16	<b>0.00**</b>	<b>0.00**</b>	<b>0.01**</b>	0.09	0.13
11.2	It should remain voluntary but should be encouraged by the issuing of recommended codes of practice by regulatory agencies.	0.23	0.70	0.11	0.45	<b>0.00**</b>	<b>0.00**</b>	<b>0.00**</b>	<b>0.02*</b>	0.34	<b>0.02*</b>
11.3	It should be mandatory for companies but with wide discretion given as to the detail disclosed	0.90	0.09	0.40	0.07	<b>0.01**</b>	0.26	<b>0.01**</b>	0.28	0.73	0.17
11.4	It should be mandatory for companies with specified minimum levels of reporting depending on company size	0.82	0.59	0.30	0.65	0.82	0.41	0.91	0.29	0.94	0.24
11.5	It should be mandatory for companies with specified minimum levels of reporting depending on economic sector	0.44	0.64	0.11	0.26	0.64	0.41	1.00	<b>0.05*</b>	0.21	0.14

**Note:** This table shows the p-values produced by a Mann-Whitney (M-W) test which indicates the difference between the responses of different pairs of groups. Groups are defined as managers (MNG), employees (EMP), shareholders and investors (SHR), Capital Market Authority employees (CMA), and academics (ACD). A \*/\*\* indicates significance at the 5%/1% level respectively. Responses are based on a five-point Likert scale where 1= strongly disagree, 2= disagree, 3= neither agree nor disagree, 4= agree, and 5= strongly agree.



## **8.5 Summary and Discussion**

This chapter outlined and described the findings of the questionnaire survey which was the second empirical method used in this study. The questionnaire was administered in order to obtain a broader view of stakeholders about CSD practices of Saudi listed companies and related issues within the Saudi context. It also set out to investigate any differences in views between the various stakeholder groups: companies' managers, companies' employees, shareholders/investors, the Capital Market Authority employees, and academics.

First, the chapter described the questionnaire design for the study, stages of developing and the pilot study, the questionnaire sample, reliability and validity of the questionnaire, and statistical techniques employed for data analysis. The background information of the participants of different groups was provided; this included respondents' length of experience, their educational qualifications, place of education for their most recent degree, and their professional qualification.

The analysis of the questionnaire's results showed that participants from different groups, in aggregate, show a perception that a high level of importance is assigned by Saudi companies to various purposes for producing annual reports by company management. In particular, to communicate with those parties and groups with financial interests and involvement in the companies concerned, and to be useful for decision-making objectives (such as for the Zakat and Tax departments; shareholders and investors; financial institutions; creditors, and managers), proved to be the most important purposes as perceived by the respondents since they achieved the highest mean scores (above four). It is important to mention that all listed purposes for providing annual reports by Saudi companies attracted, on balance, a general agreement among all groups' participants (see Table 8.3).

The results showed a perception that reporting CSR information in annual reports was deemed of importance to wider society. Participants might have thought that companies did not provide enough information with regard to their social and environmental responsibilities, and through their stance in assessing this part of the questionnaire (Question 2) could be thought of as sending a message to companies that more information about these items was needed (see Table 8.4).

The questions about stakeholders having the right to information within companies' annual reports demonstrated an overwhelming level of agreement, in aggregate, among participants (see Table 8.5). This result indicates that companies should provide information within their annual reports which serve different stakeholder groups, and not just focus on serving the powerful stakeholder groups as is arguably the current situation in the case of Saudi listed companies (see Chapter 7)<sup>116</sup>.

The idea of companies having various responsibilities (including social and environmental responsibilities) was desirable, in aggregate, to all participant groups. Respondents, in aggregate, shared the same perceptions concerning each statement (see Table 8.6). Another point is that respondents, in aggregate, accorded high levels of importance to potential listed benefits to companies and to society which could be obtained through CSD. In particular these included having a good reputation and avoiding media pressure as benefits to companies, and guiding investment decisions and protecting the environment as benefits to society (see Tables 8.7 and 8.8).

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<sup>116</sup> The findings of the content analysis of the Saudi listed companies' annual reports for 2012 suggested that companies' management take into account the powerful stakeholder groups when preparing annual reports and give little information that serves the less powerful groups (see Chapter 7).

Important findings from the questionnaire arise from the question concerning factors which may deter companies from reporting CSR information. This question reveals different views between groups related to some of the listed factors. Respondents demonstrated, in aggregate, their agreement with the view that the emphasis by companies on their economic rather than social performance is the most important factor behind the lack of such disclosure. Other factors achieved, in aggregate, a level of agreement among respondents, such as society's lack of awareness regarding CSR information; an absence of legal or similar regulatory requirements; and the lack of explicit guidance from the Board of Directors (see Table 8.9). It was noticeable that respondents from the CMA group recorded the lowest percentage of agreement, and in some cases disagreement, regarding the majority of the listed factors; their answers might be based on their belief that if companies want to disclose CSR information nothing will stop them from doing so. However, it could be argued that if this official body, which is responsible for controlling and organising companies' activities and work in the country, believe in the importance of CSR issues, they should seek to set more laws and requirements to force companies to become more socially and environmentally accountable, and thus disclose such responsibility to the public rather than leaving it to the company to make the decision on how much information to disclose, if any at all. Another striking point is that 57.7% of the CMA group indicate their disagreement (disagree/strongly disagree) about Question 7.1 which was about the absence of legal or similar regulatory requirements being a factor that may deter companies from reporting CSR, while almost all of the group's respondents (96.2%) indicate their agreement (agree/strongly agree) with Question 8.10, which suggested that government should introduce more codes and laws to force companies to be more socially responsible. Their attitudes in answering the two questions mentioned might indicate their beliefs in the insufficiency of the current legal requirements which

control such disclosure. In addition, all of the CMA group (100%) indicate their agreement with an extra question for their group (Question 8.22) which asked them if Saudi Arabia should follow regulatory developments in place in other countries and seek to adopt best practices. Another point to be argued here is related to the perceived lack of demand for CSR information as a reason that might deter companies from CSR reporting, as respondents, in aggregate, indicate their agreement with this factor, while they show, in aggregate, a high level of agreement regarding Question 8.9 which asked about the importance of CSR to them. One hundred and seventeen respondents indicate their agreement with the former question while 152 respondents indicate their agreement with the latter one, which reveals a kind of inconsistency in their answers.

Respondents from all groups, in aggregate, indicated their willingness and agreement to see more companies being more socially and environmentally responsible and disclosing information about these responsibilities in their annual reports. All participant groups broadly favoured the idea of CSR and CSD. The vast majority of the different groups' participants indicated their belief in the importance of CSD information to them, and they also, in aggregate, believe that both companies' size and their economic sectors, should determine the type and the volume of such disclosure. Respondents expressed their general approval about the role that should be played by government in pushing companies to be more socially responsible through producing more codes and laws to force companies to be more socially responsible, as well as by regulating what companies should disclose in terms of their social and environmental performance. Another important point revealed is that respondents believe that CSD information provided currently by Saudi companies is only serving the powerful stakeholder groups and ignoring the less important groups' needs and interests. This result

determined the variant of stakeholder theory apparently adopted by Saudi companies as being the managerial one (see Table 8.10). This finding is also supported by the results of the content analysis method which was applied to Saudi listed companies' annual reports in this research (see Chapter 7). The results find that Saudi companies provide information that serves the powerful stakeholders groups which can affect their business such as government, employees and society, while they ignore providing information that serves less powerful groups such as business partners.

In regard to respondents' perspectives towards the usefulness of methods that can be employed to disclose CSR information, they tended to prefer having such information in both financial and non-financial forms (see Table 8.11). Also, they indicated, in aggregate, that the most suitable place to provide CSD information is in a separate section of companies' annual reports or in the directors' statement within the annual report (see Table 8.12).

Regarding the regulatory frameworks that should apply to the disclosure of CSR information, it was apparent that participants, in aggregate, supported mandatory mechanisms being put in place for Saudi companies to establish CSD, and were against companies having the choice of what information to disclose, if any (see Table 8.13). This result imposes more responsibility on governmental agencies to start addressing this issue and to set up laws and requirements to force companies to provide their social responsibility information. Such outcomes are not surprising in a country such as Saudi Arabia where its people understand that the Islamic religion, the law and social customs should control relationships amongst the country's citizens.

This chapter explained the processes of conducting the questionnaire survey and discussed its findings. The next chapter will provide a summary of the research, discuss the research findings, outline the main contributions and the limitations of the study, and provide some opportunities for further research.

## **Chapter 9 : Conclusion**

## **9.1 Introduction**

The aim of this chapter, which concludes the thesis, is to summarise the content of the current thesis, and provide a general discussion of the empirical findings in the light of the research questions of the study and its theoretical framework. The main objective of the thesis was to examine a number of issues relating to CSD in Saudi Arabia, specifically, to investigate the current CSD practices by Saudi listed companies. In addition, the study aims to find out different stakeholders' perspectives - comprising managers, employees, shareholders/investors, the CMA, and academics - regarding the phenomenon under investigation. This chapter is structured as follows: Section 9.2 outlines the summary of the research. Section 9.3 presents the main research findings, before the limitations and the problems associated with conducting the research are outlined in Section 9.4. Section 9.5 discusses the contribution to knowledge and finally future research avenues are outlined in Section 9.6.

## **9.2 Summary of the Research**

The current thesis consists of nine chapters. Chapter 1 introduced and outlined the research topic, motivations for the study, objectives, questions, briefly outlined the research methodology and methods and structure of the research. Chapter 2 outlines the background to CSD including CSR leading to CSD, the definition of CSD, CSD information, the historical development of CSD and the terms that refer to CSD. In addition, the chapter contains the motivations for CSD and discusses associations between CSD and company characteristics as well. Chapter 3 reviewed the relevant literature on CSD that focused on studies conducted in Arab MENA countries especially on the limited number conducted in Saudi Arabia. Chapter 4 aims to put the researcher and the reader into the Saudi context by providing an overview of the Saudi Arabia background. The chapter presents the environmental factors that may



impact the accounting system and practices in Saudi Arabia, including the political, the cultural, the legal, the economic, and the financial systems, in addition to the business regulatory environment, accounting in Saudi Arabia and the country's role in environmental protection. Chapter 5 outlines the theoretical framework which informed this study: stakeholder theory. The methodology and methods applied in this study are discussed in Chapter 6. The study applied the content analysis method as reported in Chapter 7 and employed a questionnaire survey as discussed in Chapter 8 to explore and investigate CSD practices adopted by Saudi listed companies and stakeholders' perspectives regarding CSR and disclosure issues in Saudi Arabia respectively.

This section of the thesis discusses the key findings of the present study which were generated through conducting the content analysis method and a questionnaire survey. The content analysis method investigated and demonstrated the current level and type of CSD information provided in the annual reports of 141 Saudi listed companies operating in all economic sectors in the country at the end of 2012. The questionnaire survey was carried out with five stakeholder groups, namely: (i) managers, (ii) employees, (iii) shareholders/investors, (iv) the CMA employees, and (v) academics. They were asked to express their opinion about: (i) the purposes for producing annual reports; (ii) importance of disclosing CSR items; (iii) stakeholders' right to information; (iv) responsibilities of companies; (v) benefits of CSD to companies; (vi) benefits of CSD to society; (vii) factors that may deter companies from CSD; (viii) a range of statements related to CSR and CSD; (ix) methods to disclose CSR; (x) locations to disclose CSR; and (xi) frameworks to disclose CSR.

The study addresses the following research questions within the Saudi context:

1- To what extent do listed companies in Saudi Arabia provide CSD information and what is the nature of that information?

- What kinds of information have been disclosed (e.g. environmental, employee, society, and customer disclosure, or other) in the annual reports of Saudi companies?
- What is the nature of CSD provided by Saudi Companies (i.e. news categorisation, auditability of information, and evidence of information)?
- Where is CSD information being reported within the annual reports?

2- Is there any apparent consensus across Saudi listed companies, or amongst different types of companies (sectors), concerning the nature and volume of information that is disclosed?

3- What, if any, are the differences in perception about CSR and CSD amongst different stakeholder groups in Saudi Arabia (i.e. managers, employees, shareholders/investors, the CMA, and academics)?

- How do stakeholders perceive the importance of CSR and disclosure issues?
- What are the perceived factors behind any absence or lack of disclosing CSR information?
- What is perceived as being the best method/ location/ framework to provide CSR information?

### **9.3 Research Findings**

This section will conclude the main findings of the study in order to answer the research questions and provide an understanding of CSD practices by Saudi listed companies, as well as to demonstrate different stakeholders' perspectives regarding CSD issues in the country. The findings from the content analysis will be presented first to provide the answers for the

first two research questions, and then the findings from the questionnaire survey will be outlined which provide the answers to the third research question. In addition, this section attempts to interpret the findings of the study with the adopted theoretical framework: stakeholder theory.

### **9.3.1 Findings from the Content Analysis**

The evidence from Chapter 7 regarding assessing the current state of CSD provided by Saudi listed companies' annual reports in 2012 was conducted by applying the content analysis method; this indicated that CSD has not developed yet to any great extent in Saudi Arabia as firms in the country are still at an early stage in terms of the volume and the type of the disclosure provided.

With regard to the type and volume of CSD, companies in the sample provided a range of volume of CSD in their annual reports. To some extent, there are differences in the type and the amount of disclosure provided across the main disclosure categories (environmental, employee, society, and customer categories) as well as between different economic sectors.

Chapter 7 documented that the disclosure of information related to employee and society disclosure categories recorded the first and second highest levels of disclosure, respectively, within the main disclosure categories, (100% of the sample disclosed such information). The disclosure related to the environmental category was ranked third, based on the volume of disclosure and the number of companies providing such related information (27% of the sample), but was still considered limited (the results of the questionnaire survey (see Chapter 8, Section 8.4.2) reveal that respondents supported, on balance, the importance of disclosing such information). The disclosure of information related to the customer category achieved

the lowest level of disclosure, as the great majority of companies in the sample (apart from four, 2.8% of the sample) did not provide any information related to the customer category. The finding regarding the highest level of CSD provided by Saudi listed companies being allocated to the employees disclosure category is consistent with the results of other studies within Arab MENA countries including Saudi Arabia such as the Mashat (2005), Hanafi (2006), Kamla (2007), Elmogla (2009), Pratten and Mashat (2009), Menassa (2010) and Razak (2015) studies. Also the findings regarding the second highest level of disclosure being allocated to the society disclosure category is compatible with the results of the Mashat (2005), Kamla (2007), Elmogla (2009) and Razak (2015) studies. Moreover the result of the customer disclosure category which assigned the lowest level of disclosure among the main disclosure categories in the current study is supported by the findings of both the Hanafi (2006) and Pratten and Mashat (2009) studies, however it contrasts with the results of Hussainey et al. (2011) who found that the majority of CSD information provided in his study was related to the product/customer category, and the Menassa (2010) study which found that the disclosure of this category was the second highest after the disclosure of employee category. Although the customer group is found to be an unimportant stakeholder group in terms of CSD within the Saudi context in this study; in other studies it has been identified as an important and powerful stakeholder group. For example, this group were noted as a very important stakeholder group within other developing countries such as within the Bangladesh context (Islam and Deegan, 2008). This may not be surprising given the differing contexts of the studies. In the Bangladesh garment industry the customers are typically multinational clothing companies who have particular interests in employee welfare due to societal pressure from some customers in developed countries. Generally, when dividing stakeholders into primary and secondary groups, customers are considered as one of

the primary groups who can directly affect companies' continuity and activities (see, for example, Clarkson, 1995).

Regarding the disclosure within the main disclosure categories, the *environment*, *employment data*, *Zakat*, and *customer other* sub-categories have attained the highest level of attention by companies in terms of the volume of disclosure related to them within their main disclosure categories (environmental, employee, society, and customer disclosure categories respectively), whereas *energy*, *consultation with employees*, *charity and donation*, and *customer and product safety* received the lowest level of disclosure amongst their main disclosure categories.

Chapter 7 also showed that almost all companies in the sample provided the information required by law in their annual reports; this included information related to *Zakat* (100% of the sample), *employment data* (97.2%), and *pensions data* (75.9%), as companies would face governmental penalties if they did not provide such required information. However, a large number of companies in the sample did not disclose other social responsibility information such as that related to the sub-categories of *energy* (only five companies); *sustainability* (only nine companies); *employment of disabled persons* (only five companies); *consultation with employees* (none), *product and customer safety* (none); and *customers' complaints* (only one company). It seems that much of the disclosure is provided because it is mandated, and is thus geared towards government priorities. Nevertheless, some companies in the sample ascribe some level of importance towards the CSD issue by providing more information than is required by law, which is related to different CSD sub-categories. In addition, three companies in the sample (from different economic sectors) published standalone CSR

reports, which is completely voluntary. This point to a high level of attention accorded to CSD by a few Saudi companies.

With regard to differences in the type and volume of overall CSD between different economic sectors, all sectors showed some level of CSD information. Companies operating in the telecommunications and information technology sector (three companies) recorded the highest amount of disclosure amongst the other 15 sectors, followed by companies operating in the petrochemical industries sector (comprising 14 companies), while companies operating in the media and publishing sector (two companies) were found to have the lowest total volume of disclosure. In regards to the employee disclosure category and the society disclosure category within economic sectors, all sectors provided a level of employee-related information and a level of society-related information. In regards to disclosing environmental-related information, five of the economic sectors did not provide any information regarding these matters. In regards to the customer disclosure category, the majority of sectors (13 sectors) disclosed no information regarding this category, which suggests that this category had the lowest priority and importance accorded to it across the sectors, at least in the context of reporting. The results of Razak's (2015) study showed no noticeable differences on CSD provided by Saudi companies based on the industry in which they operate.

Regarding the nature of social information that has been disclosed, more than half of the information disclosed is good news (51.6% of the total news), followed by neutral news (48.4% of the total news), while the publication of bad news items was almost non-existent (0.04% of the total news). Regarding the auditability of information, 42.1% of the total

volume of CSD is considered auditable, while 57.9% is not which means most of the social information provided by companies in the sample could not be verified.

Chapter 7 also documented that the most used location to disclose CSD information within the annual reports was the Board of Director's Report, followed by disclosing such information within the Notes to the Financial Statements section, while the Chairman's Statement ranked lowest for including CSD information. This result is consistent with the results of other studies, for example, Yusoff and Lehman (2005) found that the Director's report, followed by a separate section within the annual report, are the favoured locations for Australian companies to disclose CSR information, while a review of operations followed by a separate section within the annual report were the preferred locations for Malaysian companies. Studies by Guthrie and Parker (1990) and Taha (2010) in the UK showed that the favoured location for disclosing such information was within the Board of Director's report. Hussainey et al. (2011) in a study of Egyptian companies found that 90% of the study sample disclosed such information within a separate section of the annual reports, while a Menassa (2010) study in Lebanese companies found that the Chairman's statement was the favoured place to disclose such information. Although many CSD studies which have been done in Arab MENA countries used content analysis method to analyse companies' annual reports, some of them did not provide information regarding the location of CSR information within the annual report (see, for example, Ahmad, 2004; Mashat, 2005; Saaydah, 2005; Hanafi, 2006; Aribi, 2009; Elmogla, 2009; Pratten and Mashat, 2009; Bayoud et al., 2012a).

Finally, in terms of the relationship between the findings and stakeholder theory; it could be argued that – based on the results provided here - by serving the need for information of specific powerful stakeholder groups who can affect firms' continuity, particularly the

government, employees and society, the behaviour of the management of Saudi companies seems to be consistent with the managerial variant of stakeholder theory. However, there are some differences in the level of adaptation of the managerial variants based on the number of stakeholder groups that have been served and taken into account through the process of providing CSR information, as some companies covered more or fewer areas of CSR information in their reports. This finding of adopting a particular managerial variant of stakeholder theory can be applied to a wide range of such companies as the majority of companies in the sample failed to disclose any information related to the customer disclosure category (137 out of 141 companies), or the environmental disclosure category (103 out of 141 companies). Although customers are considered an important stakeholder group who can have an important effect on companies' continuity (Clarkson, 1995), Saudi companies, in general, seem to ignore them when disclosing CSR information.

Having investigated the current state of CSD practices by Saudi listed companies in Chapter 7, Chapter 8 shifted the focus to investigate different stakeholder groups' perspectives towards different CSR and disclosure matters.

### **9.3.2 Findings from the Questionnaire Survey**

Chapter 8 reported the findings from a questionnaire survey of stakeholders' opinions, and differences in their opinions, about CSD practices of Saudi listed companies and related issues within the Saudi context. Five stakeholder groups, namely: companies' managers, companies' employees, shareholders/investors, the CMA employees, and academics, were selected as their opinions seemed to be crucial for the study. The evidence in the chapter revealed that all the stakeholder groups perceive that the main purposes for producing the annual report by company management are to communicate with those parties and groups



with financial interests and involvement in the companies concerned, and to be useful for decision-making objectives (such as for the Zakat and Tax departments; shareholders and investors; financial institutions; creditors, and managers). It is important to mention that all listed purposes of providing annual reports by Saudi companies attracted, on balance, a general agreement among all groups' participants (see Table 8.3). With regard to the importance of disclosing CSR items to wider society, respondents' opinions indicated the importance of CSR items to society.

The questionnaire findings regarding stakeholders having the right to information within companies' annual reports indicated an overwhelming level of agreement, in aggregate, among participants. This result indicates a broad view that companies should provide information within their annual reports which serve different stakeholder groups, and not just focus on serving the powerful stakeholder groups as is arguably the current situation in Saudi listed companies as discussed before (see Chapter 7). In relation to that, respondents in answering another question (Question 8.15) also believe that CSD information provided currently by Saudi companies is only serving the powerful stakeholder groups and ignoring the less powerful groups' needs and interests. This result strongly suggested that the variant of stakeholder theory apparently adopted by Saudi companies as being the managerial one, although it does not of course mean that managers know or have even heard about stakeholder theory and its variants, and are seeking to adopt one of the variants. What it means here is that their behaviour seems to be consistent with the managerial variant of the theory.

Another finding revealed through the questionnaire exercise is that the idea of companies having various responsibilities (including social and environmental responsibilities) was

thought desirable, in aggregate, by all participant groups, as they shared, on balance, the same perceptions concerning each statement. Another point is that respondents, in aggregate, recorded high levels of importance for the potential listed benefits to companies and to society which could be obtained through CSD. In particular these included having a good reputation, and avoiding media pressure as benefits to companies, and guiding investment decisions and protecting the environment as benefits to society (see Tables 8.7 and 8.8).

Chapter 8 presented important findings arising from the question concerning factors which may deter companies from reporting CSR information. This question reveals different views between groups related to a number of the listed factors. Respondents demonstrated however, in aggregate, their agreement with the view that the emphasis by companies on their economic rather than social performance is the most important factor behind the lack of such disclosure. Some other factors also achieved, in aggregate, a level of agreement among respondents, such as society's lack of awareness regarding CSR information; an absence of legal or similar regulatory requirements; and a lack of explicit guidance from the Board of Directors. It was noticeable that respondents from the CMA group recorded the lowest percentage of agreement, and in some cases disagreement, regarding the majority of the listed factors. Another striking point is that 57.7% of the CMA group indicate their disagreement about the absence of legal or similar regulatory requirements being a factor that may deter companies from reporting CSR, while almost 80% of the other groups' respondents (121 out of 151 participants) indicated their agreement with this factor. In addition, almost all of the groups' respondents (93.2% and 93.8% respectively) indicated their agreement with another two questions, which suggested that government should introduce more codes and laws to force companies to be more socially responsible, and should regulate what companies should

disclose in terms of their social and environmental performance. Their attitudes in answering these two questions suggest widespread beliefs of the insufficiency of the current legal requirements which control such disclosure. Furthermore, all of the CMA group (100%) indicate their agreement with an extra question for their group which asked them if Saudi Arabia should follow regulatory developments in place in other countries and seek to adopt best practices. Another point regarding the reasons for not providing CSR information, revealed inconsistency among all respondents' answers related to the perceived lack of demand for CSR information. Respondents, in aggregate, indicated their agreement with lack of demand as a factor, while they show, in aggregate, a high level of agreement regarding another question which asked them about the importance of CSR to them; 101 respondents indicated their agreement to the former question while 152 respondents indicated their agreement to the latter one, which reveals a kind of aggregate inconsistency in their answers.

Respondents from all groups, in aggregate, indicated their willingness and agreement to see more companies being more socially and environmentally responsible and disclosing information about these responsibilities in their annual reports. All participant groups broadly favoured the idea of CSR and CSD. The vast majority of the different groups' participants indicated their belief in the importance of CSD information to them, and they also, in aggregate, believe that both companies' size and their economic sectors, should determine the type and the amount of such disclosure. The respondents' belief of the relevance of company's size on the level of CSD is consistent with the findings of a number of studies within the Arab MENA countries (see, for example, Al-Basteki, 1997; Suwaidan et al., 2004; Saaydah, 2005; Hanafi, 2006; Naser et al., 2006; Hossain and Hammami, 2009; Menassa, 2010; Razak, 2015). Also, the respondents' belief regarding the relevance of a company's

economic sector on the level of CSD is consistent with the findings of a number of studies within the Arab MENA countries (see, for example, Al-Basteki, 1997; Mashat, 2005; Hanafi, 2006; Rizk et al., 2008; Bayoud et al., 2012b).

With regard to the useful methods that can be used to disclose CSR information when reading annual reports, respondents demonstrated their preference for having CSD information in both financial and non-financial forms as useful for disclosing such information. Also, they identified the most suitable place to provide CSD information to be in a separate section of companies' annual reports or in the directors' statement within the annual report. This finding was consistent with the findings of the Abu-Baker (1995), Ahmad (2004), Mashat (2005) and Elmogla (2009) studies, which found that providing CSR information within companies' annual reports in a separate section is the most favoured place for the majority of studies' questionnaires' respondents, followed by providing such information within the Directors' statements in the annual report as found in the Mashat (2005) and Elmogla (2009) studies. The results of the content analysis revealed that the most common place to disclose CSD information within the annual reports was in the Board of Director's Report, followed by the Notes to the Financial Statements section.

Chapter 8 also highlighted that participants, in aggregate, supported mandatory mechanisms being put in place for Saudi companies to establish CSD. Respondents supported regulatory frameworks that should apply to the disclosure of CSR information, and were against companies having the choice of what information to disclose, if any. This result shows a wish to impose more responsibility on governmental agencies to start addressing this issue and to set up laws and requirements to force companies to provide their social responsibility information.

#### **9.4 Limitations and the Problems of Conducting the Research**

This thesis, as with any social research has several limitations that need to be acknowledged. First, the previous literature of CSD practices and stakeholders' perspectives regarding the phenomenon offers a rich source of information, theories and development in developed countries, but it is considered a limitation in the context of this study due to the comparatively low number of studies specific to Saudi Arabia. There are a number of studies that have been conducted within Arab Gulf countries contexts which are similar to the Saudi environment, though the number of these studies is still limited. This meant that the possibility for comparison was limited, although of course it does mean that the current study makes a timely contribution.

Second, the analysis provided empirical evidence about current CSD practices and different stakeholders' perspectives regarding CSD issues, but only in a single emerging market, Saudi Arabia. Although single country studies are useful, the myriad factors that make their findings unique also make them difficult to generalise.

Third, the analysis of the current state of CSD practices in this study was mainly based on the information provided in companies' annual reports. Although the annual reports were chosen as the analysis unit, due to their being the main document provided regularly by companies, there are other channels that Saudi companies are using nowadays to publish their CSD information such as newspapers, government publications, etc. Considering the information provided through these channels might provide a more comprehensive picture of CSD practices amongst Saudi listed companies, although drawing the boundaries around such a study might be difficult.

Fourth, the current study investigated the type and the volume of CSD information provided by Saudi listed companies in 2012 (159 companies), however, 18 of the listed companies had to be excluded from the analysis due to difficulties in obtaining their annual reports, which resulted in a final sample of 141 companies. Also the study was based on an analysis of the annual reports for a single year, only 2012.

Fifth, notwithstanding its widespread use, the content analysis technique has a number of limitations. The difficulties arise from the questions asked and the source materials available; it is difficult to remove all subjectivity from the interpretation process, the choice of disclosure categories is often controversial, and researchers may be accused of being susceptible to bias. Although, these concerns are acknowledged, as in previous disclosure studies, several steps were taken to reduce the inherent subjectivity of the research instruments as explained in Chapter 7.

Sixth, despite the success of using questionnaire surveys to obtain peoples' perspectives regarding a specific phenomenon, the method is also subject to some limitations including the problem of possible low response rates and misinterpretation of the questions by respondents; a response bias may also occur in answering the questionnaire as respondents might, for example, not give a true answer to avoid looking irresponsible. However, as in the case of the content analysis, several steps were taken to address these limitations of the questionnaire method (however, a complete elimination of bias is never likely) as explained in Chapter 8.

Finally, the current study questioned only five stakeholder groups (managers, employees, shareholders/investors, the CMA and academics). There were several other groups in the Saudi Arabian community which arguably ought to have been made the subjects of this

research (e.g. customers, suppliers, and creditors). However, it seemed quite challenging to the researcher to analyse the attitudes of representative samples of all such additional groups on these matters largely because of the difficulties in identifying individuals, the technical and professional nature of the questions which needed to be assessed, and the data collection methods (questionnaire) along with the associated cost issues. Also, the choice of companies to distribute the questionnaire to managers and employees groups was based on the location of companies within two cities in Saudi Arabia (Riyadh and Jeddah) as a convenient sample so the perspectives obtained from the managers and employees may not reflect views in other areas of the country.

Despite the above limitations, the study does provide evidence of the current state of CSD practices by Saudi listed companies, and also addressed different stakeholders' perspectives regarding CSD in Saudi Arabia.

## **9.5 Contribution to Knowledge**

This study has made contributions in a number of key areas. The study aims to state the CSD practices of Saudi listed companies. In addition, the study aims to investigate stakeholders' perspectives of the phenomenon under study. The study also sheds light on factors that may prevent companies from providing CSD. The findings of this study are interpreted from a stakeholder framework which may potentially be seen as a contribution in applying mainly this theoretical framework within the context of Arab MENA countries. Many studies of CSD within an Arabic context used other theories to interpret their findings: for example, Mashat (2005) examined CSD practices in Libya using accountability theory. Also a number of studies used a combination of theories, including stakeholder theory, to interpret their findings: for example, Elmogla (2009) who investigated CSD practices in Libyan companies'

annual reports used all of political economy theory, legitimacy theory and stakeholder theory. To the best of the researcher's knowledge, the present study represents the most comprehensive exploration of CSD in Saudi Arabia using stakeholder theory.

The current findings may help to fill the gap in the literature in respect of CSD practices and stakeholders' perspectives in Saudi Arabia. There is a huge literature of CSD in developing countries; however, relatively there is a relative dearth of such studies conducted in Arab MENA countries in general and in Saudi Arabia in particular. Accordingly, this study should be of relevance to research on developing countries in general and on Saudi Arabia in particular due to the differing environmental factors affecting developing and developed countries.

The study also provides evidence of the current level and type of information provided by listed companies, as well as presenting different stakeholders' opinions regarding CSD issues. This contribution to knowledge is potentially of interest to all stakeholders as it sheds light on perceptions of the importance of CSD and the problems related to providing such information. The relatively low level of CSD provided by companies, as indicated by participants' opinions, may reflect the absence of a developed regulatory framework in regards to CSD. The CMA employees group who are responsible for controlling companies' behaviour within the Saudi regulatory framework and the information which must be disclosed, would arguably benefit from the findings as the evidence provides them with clear ideas of where efforts could be made in order to enhance CSD practices in the country. Thus, the findings could possibly be used to help introduce more codes and laws regarding CSD to encourage companies to be more socially responsible and to mandate information to be disclosed by companies.



Finally, based on the research outcomes, some recommendations are suggested in relation to CSD practices in Saudi Arabia. Saudi companies should be encouraged to target a wider set of stakeholders when publishing their annual reports through including information that serves less powerful stakeholder groups in addition to serving the powerful groups, which could result in increasing the awareness of CSD and improved accountability. Also CSD and the social role of accounting should arguably be included within accounting text books and within accounting syllabi in the universities, as it is a part of accounting disclosure practices. The Saudi economic, political, and social objectives should be taken into account within such accounting education in the country. Furthermore, the academics who work in Saudi universities and colleges should undertake more research on CSD issues within the Saudi context which will have a positive effect in improving and developing CSD in the country, as it will shed light on problems and obstacles in conducting such disclosure. Also academics can affect CSD positively through entering into a dialogue with officials and practitioners concerned. Such activity would also help Saudi Arabia to adopt and adapt CSD practices from more developed countries which was widely supported by respondents.

## **9.6 Future Research Avenues**

Very few studies have been conducted in Saudi Arabia in regards to CSD practices and stakeholders' perspectives of the issue. The current study aimed to shed light on this issue and to contribute to the literature; however more research in the area is needed. Accordingly, there are many potential avenues for future research in different areas of CSD within the Saudi context to fill the gap in the literature about CSD development and implementation.

This study used content analysis and questionnaire survey methods to obtain its needed data, it would be interesting to investigate CSD using other methods such as interviews to examine

specific CSD issues more deeply e.g. the possible factors that may deter companies from CSD. Such an investigation would add to our understanding of CSD practices in general. However, it is worth stating that interviews would have been impractical for a woman in Saudi.

This study examined current CSD practices by Saudi listed companies for only a single year, 2012. It would be useful if future research investigated any trends in CSD by Saudi listed companies over a number of years which should shed light on the development of such disclosure in the country. Also the findings of the current type and level of CSD provided by Saudi listed companies in this study was mainly based on analysing the annual reports of the companies (it also includes three CSR reports provided by the only three companies in the sample who issue such reports). However, there are more channels Saudi companies can use nowadays to disclose CSR-related information including, for example, newspapers and government publications; future research could consider other channels that are used to publish CSR information when studying CSD issues which will help in providing a more comprehensive picture.

This study investigated CSD practices and stakeholders' perspectives in a single country, Saudi Arabia. It would be of interest if future research considered conducting cross-country studies comparing the Saudi Arabia situation with that existing in other developing countries both within and out with the Arabic world which will allow for more generalised conclusions. Similarly future research could compare the Saudi Arabian situation with that existing in developed countries to shed light on the main differences between CSD practices and stakeholders' opinions in these differing contexts.

This study investigated five stakeholder groups' perceptions (managers, employees, shareholders/investors, the CMA, and academics) regarding CSD practices and issues; future research could explore the perceptions of other groups (in addition to the five mentioned groups), and may compare their views which will help in giving increased awareness of CSD practices in the developing world, and will better reflect a fuller picture of stakeholders' views.

Future research may also focus on the issue of including CSR and CSD in accounting text books. The current study reveals evidence of the need for educating and training accounting students, and the need for conducting more CSD research within the Saudi context. Thus, future research could also aim to explore and ultimately help to develop education and training focused on CSD and indeed CSR more widely.

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## **APPENDICES**

## **Appendix 7.1: Content Analysis Decision Rules**

### **General**

The content analysis population was drawn from the Saudi Stock Exchange available online at [www.tadawul.com.sa](http://www.tadawul.com.sa). The content analysis used here is based on methodologies previously adopted in content analysis studies, in particular, those employed by Gray et al. (1995b); Dunne (2003; 2013); Dunne et al. (2003; 2004; 2008) and Crawford et al. (2009).

### **Unit of Measurement**

- A standard A4 template divided into percentages of a page, with a standard margin, measures proportions of a page.
- Margins and blank areas of pages are associated with words, tables etc. covering the areas of disclosure.
- Actual physical size of page is to be ignored<sup>117</sup>. Thus a "newspaper"-style report could produce more than one standard A4 page of disclosure. (A measure of page size was collected by Gray et al (1995b) but appeared to convey little information and therefore, it can probably be ignored).

### **Evidence Category**

- Disclosures may be either narrative (N), quantitative (Q) or monetary (MQ) in nature.

### **Auditable/Verifiable**

- Disclosure is categorised as 'auditable' if, given access to the organisation, it would be possible to confirm the statements made. This does not require that the data are confirmed.

### **News**

- Good: statements beyond the minimum which include (for example) specific details where these details have a creditable or neutral reflection on the organisation; any statements which reflect credit on the organisation; upbeat analysis/discussion/statements.
- Neutral: statement of policy or intent within statutory minimum with no details of what or how; statement of facts whose credit/discredit to the organisation is not obvious – which are unaccompanied by editorializing.
- Bad: any statement which reflects/might reflects discredit on the organisation.

### **Location in Annual Report**

- Chairman's Statement
- The Board of Directors Report
- Financial Statements
- Other

### **Memo**

- For any additional information or disclosure of particular note.

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<sup>117</sup> All of the sampled companies' annual reports are in A4 size.

## **Appendix 7.2: The Decision Rules for the Categories of CSD**

The majority of the principal content analysis classification categories are adapted from Ernst and Ernst (1978); Gray et al. (1995b); Mashat (2005); Aribi (2009); Elmogla (2009) and Bayoud et al. (2012a) studies. A breakdown of the items expected under each of the headings is provided in these decision rules. The disclosures are divided across four main areas, namely: environmental disclosure; employee disclosure; community disclosure; and customer disclosure. Each category contains a number of sub-categories (totalling 19 sub-categories in this content analysis process). In addition, each of the 19 sub-categories comprises relevant information relating to it and this is noted in the following rules. An 'Other' sub-category is also provided within each main category to capture other information that is not captured elsewhere.

### **A. Environmental disclosure:**

#### **(1) Environment**

- Air, water, noise, visual quality and pollution plus any attempts to identify, improve or prevent these.
- Pollution information and pollution control.
- Prevention or repair of environmental damage.
- Conservation of natural resources.
- Packaging.
- Waste and recycling data
- Any information related to waste and recycling including improvements in products.

#### **(2) Energy**

- Energy saving and conservation.
- Use/development/exploration of new sources, efficiency, insulation, etc.
- Except in so far as it is part of the business (e.g. oil companies).
- Other energy-related disclosures.

#### **(3) Sustainability**

- Adoption of GRI sustainability reporting guidelines.
- Any mention of sustainability.
- Any mention of sustainable development, or the provision of a separate report.

#### **(4) Environmental other**

- Any other relevant environmental disclosures to include.
- Except in so far as it is part of the business (e.g. companies working on waste disposal).

## **B. Employee disclosure:**

### **(5) Employment data**

- Number of employees (the number of Saudi employees and foreign employees).
- Numbers employed by categories.
- Wages (salaries) excluding pensions and social security costs.
- Statutory disclosure of directors' emoluments.
- The Board of Directors' salaries and remunerations.

### **(6) Job opportunities**

- Equal opportunities.
- Racial equality.
- Sexual equality.

### **(7) Staff training and development**

- Information of training programmes for employees.

### **(8) Pension data**

- Commitments for pensions.
- Pension and social security costs in Saudi Riyals.

### **(9) Employment of disabled persons**

- Employment of disabled persons (including retraining).

### **(10) Consultation with employees**

- Action with respect to informing employees, consulting employees, encouraging (and engaging in) employee participation.
- The increasing of employee financial and economic awareness.
- Excludes profit sharing.

### **(11) Share ownership**

- Participation of employees in share schemes, profit sharing.
- Schemes/reference must be to employees (exclude if reference is to executive or directors only).
- Loans for this purpose but not to directors.

### **(12) Health and safety**

- Health insurance for employees.
- Health and safety at work.
- Toxic hazards (e.g.) to employees and the public.
- Any reference to health and safety law and/or inspectorate.
- Information to employees, training.
- Accidents.

### **(13) Employee other**

- Anything else on employees not covered above.

- For example: staff turnover; thanks to employees; length of service; racial and sexual equality (to be separated out); pensioners; employee trends/statistics by sex, age; statement of employment policy(ies); redundancy; changes in salaries/wages.

### **C. Community disclosure:**

#### **(14) Charity and donation**

- Donations in Saudi Riyal or in kind to charities or poor families.
- Donations ditto by/through employees.

#### **(15) Zakat**

- The amount of Zakat they paid in Saudi Riyals.
- How Zakat is calculated and any other relevant information.

#### **(16) Community other**

- Excluding charities information as it is included within Charity and donation sub-category (see above number 14).
- Any reference to community and/or social involvement outside the labour force.
- Schools, arts, sport, sponsorship and activities.
- Religious activities for the community, for example the provision of transport services for pilgrims in the Hajj and Umrah seasons.
- Employee involvement with above if company support is apparent.

### **D. Customer disclosure:**

#### **(17) Products and customer safety**

- Safety information.
- Reducing pollution from product use.
- Other product-related disclosures.

#### **(18) Customer complaints**

- Any information regarding customers complaining or cases in the court.

#### **(19) Customer other**

- Any other relevant customer disclosures to include, for example, consultation/feedback from customers, specific customer relations, provision for disabled, aged, etc. customers, provision for difficult-to-reach customers.

### Appendix 7.3: Analysis Grid Sheet

[illegible]

#### Appendix 7.4: Content Analysis Template for CSD

Corporate Social Disclosure Content Analysis Template								
Industry Type:								
Numerical Number of the Company:								
Institution Name:								
Document(s) Reviewed:								
Year: 2012								
Total Pages: no. of pages			No. of CSD pages:			% CSD/whole		
Category			Prop. of Page	Evidence	Auditable	News	Location	Page no.
1	Environment	ENVIRON- MENT						
2	Energy							
3	Sustainability							
4	Environmental other							
Total environmental disclosure								
5	Employment data	EMPLOYEES						
6	Job opportunities and training							
7	Staff training and development							
8	Pension data							
9	Employment of disabled persons							
10	Consultation with employees							
11	Employees' share ownership							
12	Health and safety (insurance+ at work)							
13	Employee other							
Total employee disclosure								
14	Charity and donation	SOCIE TY						
15	Zakat							
16	Community other							
Total community disclosure								
17	Customer complains	CUSTO MERS						
18	Products and customer safety							
19	Customer other							
Total customer disclosure								
21	TOTAL							

## Appendix 7.5: Table of Listed Companies in Saudi Stock Market in 2012

No	Company's Name	Availability	Language/s
<b>1- Banks and Financial services</b>			
1	1120- Al Rajhi Bank	Yes	A/ -
2	1150- Alinma Bank	Yes	A/ -
3	1080- Arab National Bank	Yes	A/ E
4	1140- Bank Albilad	Yes	A/ E
5	1020- Bank AlJazira	Yes	A/ -
6	1050- Banque Saudi Fransi	Yes	A/ E
7	1010- Riyadh Bank	Yes	A/ E
8	1090- Samba Financial Group	Yes	A/ -
9	1040- Saudi Hollandi Bank	Yes	A/ E
10	1060- The Saudi British Bank	Yes	A/ E
11	1030- The Saudi Investment Bank	Yes	A/ E
<b>2- Petrochemical Industries</b>			
12	2330- Advanced Petrochemical Co.	Yes	A/ -
13	2170- Alujain Corporation	Yes	A/ E
14	2001- Methanol Chemicals Co.	Yes	A/ -
15	2210- Nama Chemicals Co.	Yes	A/ -
16	2060- National Industrialization Co.	Yes	A/ -
17	2002- National Petrochemical Co.	Yes	A/ -
18	2380- Rabigh Refining and Petrochemical Co.	Yes	A/ E
19	2260- Sahara Petrochemical Co.	Yes	A/ E
20	2020- Saudi Arabia Fertilizers Co.	Yes	A/ -
21	2010- Saudi Basic Industries Corp	Yes	A/ E
22	2250- Saudi Industrial - Investment Group	Yes	A/ -
23	2310- Saudi International Petrochemical Co.	Yes	A/ -
24	2350- Saudi Kayan Petrochemical Co.	Yes	A/ -
25	2290- Yanbu National Petrochemical Co.	Yes	A/ -
<b>3- Cement</b>			
26	3091- Al Jouf Cement Co.	No	-
27	3010- Arabian Cement Co.	Yes	A/ -
28	3003- City Cement Co.	Yes	A/ -
29	3080- Eastern Province Cement Co.	Yes	A/ -
30	3001- Hail Cement Company	Yes	A/ -
31	3002- Najran Cement Co.	Yes	A/ -
32	3004- Northern Region Cement Company	No	-
33	3030- Saudi Cement Co.	Yes	A/ -
34	3050- Southern Province -Cement Co.	Yes	A/ -
35	3090- Tabuk Cement Co.	Yes	A/ -
36	3040- The Qassim Cement Co.	Yes	A/ -
37	3020- Yamamah Saudi Cement Co.	Yes	A/ -
38	3060- Yanbu Cement Co.	Yes	A/ -
<b>4- Retail</b>			
39	4001- Abdullah Al Othaim Markets Co.	Yes	A/ -
40	4200- Aldrees Petroleum & Transport Services Co.	Yes	A/ -
41	4290- Alkhaleej Training and Education Co.	Yes	A/ -
42	4004- Dallah Healthcare Holding Co.	Yes	A/ -



43	4240- Fawaz Abdulaziz AlHokair Co.	No	-
44	4180- Fitaihi Holding Group	Yes	A/ -
45	4190- Jarir Marketing Co.	Yes	A/ -
46	4002- Mouwasat Medical Services Co.	Yes	A/ -
47	4160- National Agriculture Marketing Co.	Yes	A/ -
48	4050- Saudi Automotive Services Co.	Yes	A/ -
49	4003- United Electronics Co.	Yes	A/ -
<b>5- Energy and Utilities</b>			
50	2080- National Gas & Industrialization Co.	Yes	A/ -
51	5110- Saudi Electricity Co.	Yes	A/ -
<b>6- Agriculture and Food Industries</b>			
52	6070- Al-Jouf Agriculture Development Co.	Yes	A/ -
53	2280- Almarai Co.	Yes	A/ E
54	4061- Anaam International Holding Group Co.	Yes	A/ -
55	6060- Ash-Sharqiyah Development Co.	Yes	A/ -
56	6080- Bishah Agriculture Development Co.	No	-
57	2100- Food Products Co.	Yes	A/ -
58	6001- Halwani Bros	Yes	A/ -
59	6002- Herfy Food Services Co.	Yes	A/ -
60	6090- Jazan Development Co.	Yes	A/ -
61	6010- National Agriculture Development Co.	Yes	A/ -
62	6020- Qassim Agriculture Co.	Yes	A/ -
63	6004- Saudi Airlines Catering Co.	Yes	A/ E
64	6050- Saudi Fisheries Co.	Yes	A/ -
65	2270- Saudia Dairy & Foodstuff Co.	No	-
66	2050- Savola Group	Yes	A/ E
67	6040- Tabuk Agriculture Development Co.	Yes	A/ -
<b>7- Telecommunication and Information Technology</b>			
68	7040- Etihad Atheeb Telecommunication Co.	No	-
69	7020- Etihad Etisalat Co.	Yes	A/ E
70	7030- Mobile Telecommunications Company SA	Yes	A/ E
71	7050- Saudi Integrated Telecom Co.	No	-
72	7010- Saudi Telecom	Yes	A/ -
<b>8- Insurance</b>			
73	8240- ACE Arabia Cooperative Insurance Co.	Yes	A/ -
74	8280- Al Alamiya for Cooperative Insurance Co.	Yes	A/ -
75	8180- Al Sagr Co-operative Insurance Co.	Yes	A/ -
76	8140- Al-Ahlia Insurance Co.	Yes	A/ -
77	8230- Al-Rajhi Company for Cooperative Insurance	Yes	A/ -
78	8130- AlAhli Takaful Co.	Yes	A/ -
79	8312- Alinma Tokio Marine Co.	No	-
80	8040- Allianz Saudi Fransi Cooperative Insurance Co.	Yes	A/ E
81	8150- Allied Cooperative Insurance Group	Yes	A/ -
82	8310- Amana Cooperative Insurance Co.	Yes	A/ -
83	8160- Arabia Insurance Cooperative Co.	Yes	A/ -
84	8070- Arabian Shield Cooperative Insurance Co.	No	-
85	8250- AXA Cooperative Insurance Co.	Yes	A/ -
86	8210- Bupa Arabia for Cooperative Insurance	Yes	A/ E
87	8270- Buruj Cooperative Insurance Co.	Yes	A/ -
88	8260- Gulf General Cooperative Insurance Co.	Yes	A/ -

89	8120- Gulf Union Cooperative Insurance Co.	Yes	A/ -
90	8020- Malath Cooperative Insurance and Reinsurance Co.	Yes	A/ -
91	8080- SABB Takaful	Yes	A/ -
92	8050- Salama Cooperative Insurance Co.	Yes	A/ -
93	8090- Sanad Insurance & Reinsurance Cooperative Co.	Yes	A/ -
94	8100- Saudi Arabian Cooperative Insurance Co.	Yes	A/ -
95	8311-Saudi Enaya Cooperative Insurance Co.	No	-
96	8110- Saudi Indian Company for Cooperative Insurance	Yes	A/ -
97	8200- Saudi Re for Cooperative Reinsurance Co.	Yes	A/ -
98	8060- Saudi United Cooperative Insurance Co.	Yes	A/ E
99	8290- Solidarity Saudi Takaful Co.	No	-
100	8010- The Company for Cooperative Insurance	Yes	A/ E
101	8030- The Mediterranean & Gulf Insurance & Reinsurance Co.	Yes	A/ E
102	8170- Trade Union Cooperative Insurance Co.	Yes	A/ -
103	8190- United Cooperative Assurance Co.	Yes	A/ -
104	8300- Wataniya Insurance Co.	Yes	A/ -
105	8220- Weqaya Takaful insurance and reinsurance co.	No	-
<b>9- Multi-Investment</b>			
106	2140- Al-Ahsa Development Co.	Yes	A/ -
107	4130- Al-Baha Investment & Development Co.	Yes	A/ -
108	4080- Aseer Trading, Tourism & Manufacturing Co.	Yes	A/ -
109	4280- Kingdom Holding Co.	Yes	A/ E
110	2120- Saudi Advanced Industries Co.	Yes	A/ -
111	2030- Saudi Arabia Refineries Co.	Yes	A/ -
112	2190- Saudi Industrial Services Co.	Yes	A/ E
<b>10- Industrial Investment</b>			
113	1214- Al Hassan Ghazi Ibrahim Shaker	Yes	A/ -
114	1213- Al Sorayai Trading And Industrial Group Co.	Yes	A/ -
115	2340- Alabdullatif Industrial Investment Co.	Yes	A/ -
116	1212- Astra Industrial Group	Yes	A/ E
117	1210- Basic Chemical Industries Co.	Yes	A/ -
118	2180- Filing & Packing Materials Manufacturing Co.	Yes	A/ E
119	2220- National Metal Manufacturing and Casting Co.	Yes	A/ -
120	1211- Saudi Arabian Mining Co.	Yes	A/ E
121	2230- Saudi Chemical Co.	No	-
122	4140- Saudi Industrial Export Co.	Yes	A/ -
123	2300- Saudi Paper Manufacturing Co.	Yes	A/ -
124	2070- Saudi Pharmaceutical Indust.& Med. Appliances Corp.	Yes	A/ -
125	1201- Takween Advanced Industries	Yes	A/ -
126	2150- The National Co. for Glass Industries	Yes	A/ -
<b>11- Building and Construction</b>			
127	1330- Abdullah A. M. Al-Khodari Sons Co.	Yes	A/ -
128	2320- AL-Babtain Power & Telecommunication Co.	Yes	A/ -
129	2200- Arabian Pipes Co.	Yes	A/ -
130	2370- Middle East Specialized Cables Co.	Yes	A/ -
131	1310- Mohammad Al Mojil Group Co.	Yes	A/ -
132	2090- National Gypsum Co.	Yes	A/ -
133	4230- Red Sea Housing Services Co.	Yes	A/ -

134	2160- Saudi Arabian Amiantit Co.	Yes	A/ -
135	2110- Saudi Cable Co.	Yes	A/ -
136	2040- Saudi Ceramic Co.	Yes	A/ E
137	2130- Saudi Industrial Development Co.	Yes	A/ -
138	1320- Saudi Steel Pipe Co.	Yes	A/ -
139	2360- Saudi vitrified clay pipes co.	Yes	A/ -
140	1301- United Wire Factories Co.	Yes	A/ -
141	2240- Zamil Industrial Investment Co.	Yes	A/ -
<b>12- Real Estate Development</b>			
142	4150- Arriyadh Development Co.	Yes	A/ -
143	4300- Dar Alarkan Real Estate Development Co.	Yes	A/ -
144	4220- Emaar The Economic City	Yes	A/ -
145	4250- Jabal Omar Development Co.	No	-
146	4310- Knowledge Economic City	Yes	A/ -
147	4100- Makkah Construction & Development Co.	No	-
148	4020- Saudi Real Estate Co.	Yes	A/ -
149	4090- Taiba Holding Co.	Yes	A/ -
<b>13- Transport</b>			
150	4040- Saudi Public Transport Co.	Yes	A/ -
151	4110- Saudi Transport and Investment Co.	Yes	A/ -
152	4030- The National Shipping Co. of Saudi Arabia	No	-
153	4260- United International Transportation Company Ltd.	Yes	A/ -
<b>14- Media and Publishing</b>			
154	4270- Saudi Printing & Packaging Co.	Yes	A/ -
155	4210- Saudi Research and Marketing Group	Yes	A/ E
156	4070- Tihama Advertising & Public Relations Co.	No	-
<b>15- Hotel &amp; Tourism</b>			
157	1810- Altayyar Travel Group	Yes	A/ -
158	4010- Saudi Hotels & Resort Areas Co.	Yes	A/ -
159	4170- Tourism Enterprise Co.	Yes	A/ -

**Notes:**

\* This table shows all of the listed companies in the SSM in 2012 and the availability of their annual reports. At the end of 2012 there were 159 companies in the Saudi Stock Market, but 2 of them were suspended from trading (namely; 1310- [Mohammad Al Mojil Group Co.](#); 6080- [Bishah Agriculture Development Co.](#)). So the number of trading companies was exactly 157 companies. However, because of the difficulties of obtaining their annual reports, 18 of the listed companies had to be excluded from the analysis which resulted in a final sample of 141 companies working in different sectors (15 sectors).

\* Languages section: A means Arabic Language, while E means English language.

\* The number before the name of the company is the company's number on the Saudi Stock Market.

## **Appendix 8.1: The English Version of the Questionnaire Survey Showing All Responses Answers**



January 2014  
Dear Sir/ Madam

### **Corporate social disclosure (CSD) in Saudi listed companies: current practice and stakeholders' perspectives**

I am writing to ask for your help with a research study I am carrying out for my PhD degree at the University of Dundee, UK. The study aims to explore corporate social responsibility reporting in Saudi listed companies, as well as evaluating stakeholder perceptions regarding the usefulness of current social reporting. This questionnaire has been sent to a number of stakeholder groups namely managers and employees of listed companies, academics in business schools, investors in the Saudi Stock Market, and people who work in the Stock Market Authority.

Your prompt response to the questionnaire, which should only take 10-15 minutes to complete, would be greatly appreciated.

I would like to assure you that all responses will be treated in confidence and used only for academic purposes.

If you have any questions about the research, please do not hesitate to contact me or my supervisors: Dr. Theresa Dunne and Professor David Collison.

Thank you very much in advance for your assistance and kind co-operation. I am looking forward to receiving your highly valued responses and comments.

Yours faithfully

May Alamoudi  
PhD student  
School of Business (Accounting and Finance)  
University of Dundee, Scotland, UK  
Tel. 0503357174 (Mobile)  
Email: [m.a.h.alamoudi@dundee.ac.uk](mailto:m.a.h.alamoudi@dundee.ac.uk)

Supervised by:  
Dr. Theresa Dunne  
Lecturer in Accounting  
School of Business  
University of Dundee, Scotland, UK  
Email: [T.M.Dunne@dundee.ac.uk](mailto:T.M.Dunne@dundee.ac.uk)

Professor. David Collison  
Professor of Accounting and Society  
School of Business  
University of Dundee, Scotland, UK  
Email: [d.j.collison@dundee.ac.uk](mailto:d.j.collison@dundee.ac.uk)

## Questionnaire Survey

### Part One: Personal Background

Please tick the appropriate box

**1) Age:**

20- 30		41- 50	
31- 40		51 and over	

**2) Gender:**

Male		Female	
------	--	--------	--

**3) Current occupation:**

CEO- Chief Executive Officer/ GM- General Manager		CFO- Chief Financial Officer/ Financial or Accounting Manager		Regional Manager	
Manager of Department/ Sector		Other Employee			

Please Specify job title .....

**4) Industry sector you are working in:**

Banks & Financial Services		Agriculture & Food Industries		Building & Construction	
Petrochemical Industries		Telecom. & Info. Technology		Real Estate Development	
Cement		Insurance		Transport	
Retail		Multi-Investment		Media and Publishing	
Energy and Utilities		Industrial Investment		Hotel & Tourism	

**5) Approximate size of company based on the total assets:**

Less than 1 Billion SR		1 Billion – 25 Billion SR	
25 Billion – 50 Billion SR		More than 50 Billion SR	
Not sure			

**6) Years of work experience:**

Less than 3 years		6-15 years	
3-5 years		More than 15 years	

**7) Your most recent educational qualification:**

Less than secondary school		Secondary school	
Intermediate Diploma		Higher diploma	
Bachelor degree		Master degree (or its equivalent)	
PhD degree (or its equivalent)		Other (please specify .....)	

**8) Place of education for the most recent degree:**

Saudi Arabia		The USA	
Other Arab country (please specify.....)		Canada/ Australia	
The UK		East Asian Countries	
Other (please specify.....)			

**9) Do you hold a professional qualification in Accounting:**

Yes		No	
-----	--	----	--

If yes, please specify.....

**10) Do you hold a professional qualification in Engineering:**

Yes		No	
-----	--	----	--

If yes, please specify.....

**11) Do you hold another professional qualification:**

Yes		No	
-----	--	----	--

If yes, please specify.....

## Part Two: Corporate reporting practices by Saudi companies

For questions 1 to 11, please tick the box to indicate your answer

**1) Please indicate your assessment of the importance which Saudi companies assign to each of the following purposes for producing the annual report that is provided by company management**

1= Not at all Important

2 = Not Important

3=Moderately Important

4 = Important

5 = Very Important

Purposes/ Goals		1	2	3	4	5
1.1	To report to existing shareholders on the uses made of their funds and legality of those uses	2	5	19	51	100
1.2	To inform creditors about the financial position of the business	1	4	19	72	81
1.3	To help employees protect and advance their interests	2	16	34	69	56
1.4	To assist managers in managing the company	1	7	29	63	77
1.5	To assist potential investors in their investment decisions	1	0	23	61	92
1.6	To report to society at large in order to judge the actions and policies of the company	3	15	31	65	63
1.7	To assist in the negotiation of financial facilities with financial institutions	0	6	13	78	80
1.8	To report to the Income Tax and al Zakat department, as a basis for taxation and Zakat assessment	1	2	20	52	102
1.9	To assist government agencies and departments in debates about the public interest	3	13	31	79	51
1.10	To comply with the requirements of Islamic Shari'ah, which requires the disclosure of information related to the impact of a company's activities on society and the environment	2	14	37	72	52
1.11	For banks and financial services companies, and insurance companies, to provide information on their adherence to Shari'ah principles (e.g. riba and interest)	4	17	32	57	67
1.12	To provide information for sustainable development	7	26	47	46	51
1.13	To provide information for customers regarding the company's products, services and future prospects	1	18	46	70	42
1.14	To provide information for other business partners (e.g. suppliers)	2	22	49	73	31

- 2) The following is a list of items relating to corporate social responsibility reporting which could be disclosed in a company's annual report. Please indicate your assessment of the importance to wider society of Saudi companies disclosing the following information in their annual reports

1= Not at all Important  
4 = Important

2 = Not Important  
5 = Very Important

3=Moderately Important

Corporate social responsibility items		1	2	3	4	5
2.1	Employee-related information	1	16	37	72	51
2.2	Environmental Information- pollution	10	16	23	59	69
2.3	Environmental Information- energy usage	8	19	28	68	54
2.4	Environmental Information- conservation of natural resources	10	17	22	66	62
2.5	Customer/product-related information	2	11	47	82	35
2.6	Involvement with local communities	4	11	29	73	60

- 3) To what extent do you agree that the following stakeholders should have the right to information within companies' annual report about actions of Saudi companies which might affect them

SD= Strongly Disagree  
A = Agree

D = Disagree  
SA = Strongly Agree

NAD = Neither Agree Nor Disagree

Stakeholders		SD	D	NAD	A	SA
3.1	People with an interest in social and environmental matters	0	2	12	68	95
3.2	Shareholders	0	2	2	40	133
3.3	Employees	0	3	16	87	71
3.4	Customers	0	7	25	83	62
3.5	Creditors/ Lenders	1	5	26	52	93
3.6	Financial market investors	0	1	4	48	124
3.7	Local communities	2	6	16	83	70
3.8	Government agencies and departments	1	0	14	49	113
3.9	Business partners (e.g. suppliers)	1	5	20	93	58

- 4) Please state the extent to which you agree with each of these statements concerning companies

SD= Strongly Disagree  
A = Agree

D = Disagree  
SA = Strongly Agree

NAD = Neither Agree Nor Disagree

View		SD	D	NAD	A	SA
4.1	Companies have responsibilities other than making profits	8	16	5	66	82
4.2	Companies should bear some social responsibilities to justify their existence within the society	0	3	1	63	110
4.3	Every company should be thought of as an entity whose existence and decisions can be justified in so far as they serve public or social purposes as well as private purposes	1	5	12	84	75
4.4	Companies make use of natural resources so should insure that they use them responsibly	0	3	4	52	118

**5) Please indicate your assessment of the importance of each of these potential benefits to companies which can be achieved by reporting social responsibility information**

1= Not at all Important  
4 = Important

2 = Not Important  
5 = Very Important

3=Moderately Important

Benefits	1	2	3	4	5
5.1 Good reputation	1	2	3	45	126
5.2 Better relationships with stakeholders	0	7	7	79	84
5.3 Improved employee morale and loyalty	5	4	23	66	79
5.4 Improved access to capital and funding	2	5	21	85	64
5.5 Improved reputation with government and regulatory authorities	0	1	8	57	111
5.6 Improved reputation with religious authorities	2	2	22	70	81
5.7 Avoidance of media pressure	1	3	17	45	111
5.8 Enhanced customer support and loyalty	1	3	18	80	75

**6) Please indicate your assessment of the importance of each of these potential benefits to society which can be achieved by reporting social responsibility information**

1= Not at all Important  
4 = Important

2 = Not Important  
5 = Very Important

3=Moderately Important

Benefits	1	2	3	4	5
6.1 Serving society at large (public right to information)	1	2	13	71	90
6.2 Serving customers	1	1	32	85	58
6.3 Guiding investment decisions	2	5	15	54	101
6.4 Protecting the environment	3	5	9	61	99
6.5 Raising awareness of social and environmental issues	4	5	11	56	101

**7) Please indicate the extent to which you agree that the following factors may deter Saudi companies from reporting corporate social responsibility information**

SD= Strongly Disagree  
A = Agree

D = Disagree  
SA = Strongly Agree

NAD = Neither Agree Nor Disagree

Reasons	SD	D	NAD	A	SA
7.1 Absence of legal or similar regulatory requirement	15	17	14	61	70
7.2 Absence of accounting standards	14	21	48	65	29
7.3 Lack of demand for this type of information	15	24	21	80	37
7.4 Society's lack of awareness regarding this type of information	10	22	8	57	80
7.5 The cost of disclosing this type of information outweighs its benefits	36	49	30	48	14
7.6 Sensitive nature of this type of information	35	66	20	43	13
7.7 Administrative difficulties in preparing the report	43	61	38	28	7
7.8 Management does not appreciate its social responsibility	20	34	18	77	28
7.9 The lack of explicit guidance from the Board of Directors	9	25	23	70	50
7.10 The objectives of the company emphasise its economic rather than social performance	9	15	16	60	77
7.11 Possible intervention by central authorities	23	53	43	38	20



**8) The following statements relate to corporate social responsibility and reporting, please indicate the extent to which you agree with each of these statements with reference to Saudi firms**

SD= Strongly Disagree

D = Disagree

NAD = Neither Agree Nor Disagree

A = Agree

SA = Strongly Agree

Statements	SD	D	NAD	A	SA
8.1 Management should contribute to a company's social and environmental responsibility	0	2	2	56	117
8.2 Achieving greater environmental protection, even if it sometimes leads to less profit, should be accepted by a company	1	7	9	77	83
8.3 Economic development should equitably meet development and environmental needs of present and future generations	1	1	7	95	73
8.4 Social responsibility and environmental protection is an Islamic duty, which must be undertaken to protect human health and rights	0	2	3	67	105
8.5 Some adverse effects on the environment from the production of goods and services are unavoidable	24	29	14	72	38
8.6 The central authorities should regulate what companies disclose in terms of social and environmental performance	1	2	8	57	109
8.7 The social and environmental responsibility of business is to increase its profits	9	17	32	79	40
8.8 Stakeholders do use corporate social responsibility information disclosed by companies to make their decisions	2	50	29	68	28
8.9 Reporting of social and environmental information is a subject to which I have given substantial consideration	0	12	13	82	70
8.10 Government should produce more codes and laws to force companies to be more socially responsible	2	4	6	48	117
8.11 Size of a company should affect the amount of corporate social responsibility disclosure (e.g. large companies should provide more information and vice versa)	12	31	17	52	65
8.12 A company's economic sector is likely to affect the type and the amount of social responsibility information disclosed	4	16	22	82	53
8.13 Managers tend to hide bad news	2	7	15	55	98
8.14 In future, different stakeholders are more likely to use corporate social responsibility information when making decisions	3	5	34	111	24
8.15 Managers tend to report social responsibility information that mainly serves powerful stakeholders	1	18	27	71	60
8.16 Managers tend to report social responsibility information that serves all stakeholder groups equally	27	64	36	40	10

**Continue of Question 8: Extra statements were provided to specific group:**

<b>Statements</b>		<b>SD</b>	<b>D</b>	<b>NAD</b>	<b>A</b>	<b>SA</b>
<b>Shareholders/ investors group</b>						
8.17	I am familiar with the term corporate social responsibility	0	4	6	21	21
8.18	I appreciate receiving this kind of information from companies	0	0	5	19	28
8.19	Corporate social responsibility information affects my investment decisions	1	1	8	25	17
8.20	My investment decisions mainly depend on a company's financial performance	0	3	5	20	24
8.21	I tend to invest in companies with a good social reputation	0	2	6	16	28
<b>The Capital Market Authority employees</b>						
8.22	Saudi Arabia should follow regulatory developments in other countries and seek to adopt best practices	0	0	0	3	23
<b>Academics</b>						
8.23	Teaching students about corporate social responsibility will affect their behaviour towards corporate social responsibility disclosure as managers or employees in the future	0	1	2	13	34
8.24	Teaching students about corporate social responsibility will increase the awareness of this topic in the whole society	0	0	1	16	33
8.25	Academics could play a vital role in pushing companies and managers to be more socially responsible, by conducting research regarding corporate social responsibility and disclosure in Saudi Arabia	0	0	1	6	43

**9) The following are possible methods that can be used to disclose corporate social responsibility information; please indicate the extent to which they are likely to be useful to you when reading annual reports**

SD= Strongly Disagree  
A = Agree

D = Disagree  
SA = Strongly Agree

NAD= Neither Agree Nor Disagree

<b>Methods</b>		<b>SD</b>	<b>D</b>	<b>NAD</b>	<b>A</b>	<b>SA</b>
9.1	Narrative descriptions	2	14	15	103	43
9.2	Physical quantities	1	7	7	103	59
9.3	Monetary (financial terms)	3	5	7	107	55
9.4	Graphical information	2	7	3	112	53
9.5	Pictorial representation	4	11	15	92	55

**10) Using the scale below, please state the extent to which you agree that each of the following are suitable locations to disclose corporate social responsibility information pertaining to Saudi organisations' social responsibilities**

SD= Strongly Disagree  
A = Agree

D = Disagree  
SA = Strongly Agree

NAD = Neither Agree Nor Disagree

<b>Locations</b>		<b>SD</b>	<b>D</b>	<b>NAD</b>	<b>A</b>	<b>SA</b>
10.1	In a separate section entitled 'social responsibility' (or equivalent) in the main annual report	3	5	14	90	65
10.2	In a special separate booklet (e.g. social responsibility report; sustainability report)	6	20	15	95	41
10.3	In the directors' statement within the annual report	3	13	21	107	33
10.4	In the notes to the financial statements within the annual report	6	19	34	87	31
10.5	Included in the Chief Executive Officer or Chairman's statement within the annual report	24	37	44	53	19
10.6	In any other section within the annual report (please specify ..... .....)	15	49	83	22	8

**11) The following are possible frameworks by which corporate social responsibility information should be disclosed; please indicate the extent to which you agree with each of these mechanisms with reference to Saudi firms**

SD= Strongly Disagree  
A = Agree

D = Disagree  
SA = Strongly Agree

NAD = Neither Agree Nor Disagree

<b>Mechanisms</b>		<b>SD</b>	<b>D</b>	<b>NAD</b>	<b>A</b>	<b>SA</b>
11.1	It should remain totally voluntary for companies	86	54	8	21	8
11.2	It should remain voluntary but should be encouraged by the issuing of recommended codes of practice by regulatory agencies.	49	71	11	29	17
11.3	It should be mandatory for companies but with wide discretion given as to the detail disclosed	14	24	7	90	42
11.4	It should be mandatory for companies with specified minimum levels of reporting depending on company size	7	24	8	82	56
11.5	It should be mandatory for companies with specified minimum levels of reporting depending on economic sector	5	14	9	80	69

**12) Any comments you may have on this topic would be very welcome.**

.....  
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.....

**If you would like to receive a summary of the results of this questionnaire please give a postal or email address.**

.....  
.....  
.....

**If you would be prepared to be interviewed about this topic please indicate appropriate contact details and the name of your company if applicable.**

.....  
.....  
.....

**Thank you very much indeed for your time**

## Appendix 8.2: The Arabic Version of the Questionnaire Survey



يناير 2014

السادة المحترمين

السلام عليكم ورحمة الله وبركاته

أرغب بطلب مساعدتكم في إتمام البحث الذي أقوم به بعنوان " الإفصاح عن المسؤولية الاجتماعية للشركات السعودية المساهمة: الممارسة الحالية ووجهات نظر أصحاب المصالح" تحت إشراف كلا من الدكتورة/ تريزا ديون والبروفيسور/ ديفيد كوليسون في جامعة دندي في المملكة المتحدة.

تهدف الدراسة إلى استكشاف الإفصاح عن المسؤولية الاجتماعية للشركات السعودية المساهمة، وكذلك التعرف على آراء أصحاب المصالح عن مدى فائدة التقارير الاجتماعية الحالية. وقد تم إرسال هذا الاستبيان إلى عدد من مجموعات أصحاب المصالح كجزء أساسي من البحث وهم: مديري وموظفي الشركات المساهمة، والأكاديميين في كليات الاقتصاد والإدارة، والمستثمرين في سوق الأسهم السعودي، والمسؤولين في هيئة سوق المال. لذا فإن استجابتكم بملء هذا الاستبيان ذات أهمية بالغة وتقدير كبير علما أنه سيستغرق حوالي 15 دقيقة.

مرفق طي هذه الرسالة استبيان يتكون من جزئين يرجى تكرمكم بالإجابة عليها. وإذا كان لديكم أي تعليق على الموضوع أو أي جزء من الاستبيان أو أية إضافات ترونها ملائمة فأرجو شاكركم ذكرها في الورقة المعدة لذلك في نهاية الاستبيان.

كما أود أن أؤكد لكم أن كافة الإجابات التي سوف تقدمونها سوف تعامل بشكل سري وللاغراض العلمية فقط. وإذا كان لديكم أي أسئلة تتعلق بالبحث فارجاء لا تترددوا بمراسلتي على إيميلي البريدي الموضح أدناه.

وأخيرا أقدم لكم جزيل الشكر والعرفان مقدرة مساعدتكم وحسن تعاونكم

مي عبدالعزيز العامودي  
طالبة دكتوراه  
قسم المحاسبة والمالية  
كلية الأعمال  
جامعة دندي- المملكة المتحدة  
[m.a.h.alamoudi@dundee.ac.uk](mailto:m.a.h.alamoudi@dundee.ac.uk)

## الاستبيان

### الجزء الأول: معلومات عامة

الرجاء وضع إشارة مقابل الاختيار المناسب  
1- العمر:

أقل من 20	
20-30	
31-40	
41-50	
51 وأكثر	

2- الجنس:

ذكر	
أنثى	

3- الوظيفة الحالية:

رئيس تنفيذي/ مدير عام	مدير مالي/ مدير مالية ومحاسبة	مدير إقليمي
مدير قسم/ وحدة	موظف آخر	

يرجى تحديد مسمى الوظيفة: .....

4- القطاع الاقتصادي الذي تعمل به:

المصارف والخدمات المالية	الزراعة والصناعات الغذائية	التشييد والبناء
الصناعات البتر وكيميائية	الاتصالات وتقنية المعلومات	التطوير العقاري
الإسمنت	التأمين	النقل
التجزئة	شركات الاستثمار المتعدد	الإعلام والنشر
الطاقة والمرافق الخدمية	الاستثمار الصناعي	الفنادق والسياحة

5- حجم الشركة بناء على مجموع الأصول "تقريباً":

أقل من 1 بليون ريال	1 بليون – 25 بليون ريال	25 بليون – 50 بليون ريال
أكثر من 50 بليون ريال	غير متأكد	

6- سنوات الخبرة:

أقل من 3 سنوات	من 3 إلى 5 سنوات
من 6 إلى 15 سنة	أكثر من 15 سنوات

7- آخر مؤهل علمي تم الحصول عليه:

أقل من الثانوية العامة	الثانوية العامة
دبلوم متوسط	دبلوم عالي
درجة البكالوريوس	درجة الماجستير (أو ما يعادلها)
درجة الدكتوراه (أو ما يعادلها)	

8- البلد الذي حصلت فيها على آخر مؤهل دراسي:

المملكة العربية السعودية	بلد عربي آخر (أرجو التحديد)
بريطانيا	أمريكا
كندا/ أستراليا	دول شرق آسيا
أخرى (أرجو التحديد .....	

9- هل لديك مؤهل مهني في المحاسبة:

نعم	لا
-----	----

إذا كانت الإجابة نعم، فيرجى التحديد .....

10- هل لديك مؤهل مهني في الهندسة:

نعم	لا
-----	----

إذا كانت الإجابة نعم، فيرجى التحديد .....

11- هل لديك مؤهلات مهنية أخرى:

نعم	لا
-----	----

إذا كانت الإجابة نعم، فيرجى التحديد .....

الجزء الثاني: التطبيقات الحالية لإفصاح الشركات السعودية

للأسئلة من 1-11، الرجاء وضع علامة في المربع الذي يمثل الإجابة الأمثل

1- الرجاء إبداء مدى تقديرك للأهمية النسبية التي توليها الشركات السعودية المساهمة لكل من الأهداف التالية عند إعدادها للتقرير السنوي

1 = غير هام على الإطلاق  
2 = غير هام  
3 = متوسط الأهمية  
4 = هام  
5 = هام جدا

الهدف / الغرض	1	2	3	4	5
1.1 توفير معلومات للمساهمين الحاليين لبيان استخدامات أموالهم وقانونية استخدام هذه الأموال					
1.2 توفير بيانات للدائنين حول وضع الشركة المالي					
1.3 توفير بيانات للموظفين (العاملين) من أجل حماية حقوقهم					
1.4 توفير بيانات للمديرين لمساعدتهم في إدارة الشركة					
1.5 توفير بيانات للمستثمرين المحتملين لمساعدتهم في اتخاذ قراراتهم الاستثمارية					
1.6 توفير بيانات للمجتمع ككل للحكم على الأعمال والأنشطة التي تقوم بها الشركة					
1.7 توفير بيانات للمؤسسات المالية (المصارف ومؤسسات الإقراض) لمساعدتها في اتخاذ القرارات الخاصة بمنح القروض والتسهيلات الائتمانية للشركة					
1.8 توفير بيانات لمصلحة الزكاة والدخل لاحتساب مقدار الزكاة أو الضريبة على الشركة					
1.9 توفير بيانات للجهات الحكومية المختصة من أجل مساعدتهم في النقاشات المتعلقة بمختلف قضايا المصلحة العامة					
1.10 ليوافق متطلبات الشريعة الإسلامية والتي تتطلب الكشف عن المعلومات المتعلقة بتأثير أنشطة الشركة على المجتمع والبيئة					
1.11 توفير المعلومات المتعلقة بمدى ملاءمة منتجات الشركات (في قطاع البنوك والخدمات المالية وقطاع التأمين) لمتطلبات الشريعة الإسلامية (فيما يتعلق بالربا)					
1.12 توفير معلومات تساعد في التنمية المستدامة					
1.13 توفير معلومات للعملاء تتعلق بمنتجات الشركة والخدمات والآفاق المستقبلية					
1.14 توفير بيانات لشركاء العمل كالموردين وغيرهم					

2- الرجاء إبداء مدى تقديرك للأهمية النسبية للمجتمع السعودي عن قيام الشركات السعودية المساهمة بالإفصاح عن البنود التالية والمتعلقة بالمسؤولية الاجتماعية لها في تقاريرها السنوية

1 = غير هام على الإطلاق  
2 = غير هام  
3 = متوسط الأهمية  
4 = هام  
5 = هام جدا

بنود المسؤولية الاجتماعية للشركات	1	2	3	4	5
2.1 معلومات متعلقة بالموظفين/ الموارد البشرية					
2.2 معلومات متعلقة بالبيئة- التلوث					
2.3 معلومات متعلقة بالبيئة- الطاقة واستخداماتها					
2.4 معلومات متعلقة بالبيئة- المحافظة على الموارد الطبيعية					
2.5 معلومات متعلقة بالعملاء والمنتجات					
2.6 معلومات متعلقة بالإسهامات في خدمة المجتمع المحلي					

3- الرجاء تحديد إلى أي مدى توافق على أنه يجب أن يكون للفئات المختلفة من أصحاب المصالح (المبينة في الجدول أدناه) الحق في الحصول على المعلومات عن أنشطة وممارسات الشركات والتي قد تؤثر عليهم في التقرير السنوي للشركة

1= لا أوافق بشدة  
2= لا أوافق  
3= لا رأي  
4= أوافق  
5= أوافق بشدة

أصحاب المصالح	1	2	3	4	5
3.1 الأشخاص ذوي الاهتمام بأمور المجتمع والبيئة					
3.2 المساهمين					
3.3 الموظفين					
3.4 العملاء					
3.5 الدائنين/ المقرضين					
3.6 المستثمرين في السوق المالي					
3.7 المجتمع المحلي (المجتمع السعودي)					
3.8 الجهات الحكومية					
3.9 شركاء العمل كالموردين وغيرهم					

4- الرجاء التكرم بتحديد إلى أي مدى تتفق مع كل من هذه العبارات المتعلقة بالشركات

1= لا أوافق بشدة  
2= لا أوافق  
3= لا رأي  
4= أوافق  
5= أوافق بشدة

البيان	1	2	3	4	5
4.1 الشركات لديها مسؤوليات أخرى غير تحقيق الأرباح					
4.2 يجب أن تتحمل الشركات الحد الأدنى من المسؤولية الاجتماعية لتبرر تواجدها في المجتمع					
4.3 كل شركة يجب أن ينظر إليها على أنها مؤسسة اجتماعية بمعنى أن وجودها وقراراتها يمكن تبريرها طالما تخدم الأغراض الاجتماعية العامة					
4.4 تستخدم الشركات الموارد الطبيعية لذلك يجب التأكد من أنها تستخدمها بطريقة مسؤولة					

5- فيما يلي قائمة بالفوائد المحتملة للشركات والتي يمكن الحصول عليها من خلال الإفصاح عن معلومات تتعلق بالمسؤولية الاجتماعية للشركة. الرجاء إبداء مدى تقديرك للأهمية النسبية لكل من هذه الفوائد

1= غير هام على الإطلاق  
2= غير هام  
3= متوسط الأهمية  
4= هام  
5= هام جد

الفوائد	1	2	3	4	5
5.1 السمعة الجيدة					
5.2 علاقت أفضل مع أصحاب المصالح					
5.3 رفع معنويات الموظفين والحصول على ولائهم					
5.4 زيادة فرص الحصول على رأس المال والتمويل					
5.5 تحسين سمعة الشركة لدى السلطات التنظيمية والجهات الحكومية					
5.6 تحسين سمعة الشركة لدى الجهات الشرعية (الدينية)					
5.7 تجنب الضغط الإعلامي					
5.8 تعزيز دعم وولاء العملاء					



6- فيما يلي قائمة بالفوائد المحتملة للمجتمع والتي يمكن الحصول عليها من خلال قيام الشركات بالإفصاح عن المسؤولية الاجتماعية. الرجاء إبداء مدى تقديرك للأهمية النسبية لكل من هذه الفوائد

1= غير هام على الإطلاق  
2= غير هام  
3= متوسط الأهمية  
4= هام  
5= هام جد

الفوائد	1	2	3	4	5
6.1 خدمة المجتمع عامة (الحق في الحصول على المعلومات)					
6.2 خدمة العملاء					
6.3 المساعدة في اتخاذ قرارات الاستثمار					
6.4 حماية البيئة					
6.5 زيادة الوعي بالقضايا البيئية والاجتماعية					

7- الرجاء التكرم بتحديد إلى أي مدى تتفق مع كل مما يلي كأسباب تعيق الشركات السعودية المساهمة عن الإفصاح عن معلومات حول مسؤوليتها الاجتماعية

1= لا أوافق بشدة  
2= لا أوافق  
3= لا رأي  
4= أوافق  
5= أوافق بشدة

الأسباب	1	2	3	4	5
7.1 غياب المتطلبات القانونية أو النظامية					
7.2 غير مطلوبة بموجب معايير المحاسبة					
7.3 عدم وجود طلب كافي على هذا النوع من المعلومات					
7.4 نقص وعي المجتمع لهذا النوع من المعلومات					
7.5 تكلفة إعدادها ونشرها تفوق الفائدة المرجوة منها					
7.6 المعلومات المتعلقة بالمسؤولية الاجتماعية حساسة					
7.7 وجود صعوبات إدارية في إعداد التقرير					
7.8 الإدارة التنفيذية لا تدرك مسؤوليتها الاجتماعية					
7.9 عدم وجود توجيه صريح من الجمعية العمومية أو مجلس الإدارة					
7.10 أهداف الشركة تؤكد على الأداء الاقتصادي (المالي) وليس على الأداء الاجتماعي لها					
7.11 احتمالية التدخل أو المساءلة من قبل السلطات المركزية					

8- العبارات التالية تتعلق بالمسؤولية الاجتماعية للشركات والإفصاح عنها. الرجاء التكرم بتحديد إلى أي مدى تتفق مع كل منها في سياق الشركات السعودية المساهمة

3= لا رأي

2= لا أوافق،

5= أوافق بشدة

1= لا أوافق بشدة

4= أوافق

البيان	1	2	3	4	5
8.1 ينبغي لإدارة الشركة المشاركة في المسؤولية الاجتماعية والبيئية					
8.2 تحقيق مستوى عالي في حماية البيئة- حتى لو كان ذلك يؤدي في بعض الأحيان إلى ربح أقل- ينبغي أن يكون مقبولا من قبل الشركة					
8.3 التنمية الاقتصادية يجب الوفاء به منصفة مع مواكبة التطور والمحافظة على الاحتياجات البيئية لأجيال الحاضر والمستقبل					
8.4 المسؤولية الاجتماعية وحماية البيئة هو واجب إسلامي يجب الوفاء به لحماية حقوق الإنسان وصحته					
8.5 بعض الآثار السلبية على البيئة من إنتاج السلع والخدمات أمر لا مفر منه					
8.6 ينبغي على السلطات المركزية تنظيم وتحديد ما يجب أن تكشف عنه الشركات من حيث أدائها الاجتماعي والبيئي					
8.7 المسؤولية الاجتماعية للشركات هو لزيادة أرباحها					
8.8 يستخدم أصحاب المصالح معلومات المسؤولية الاجتماعية للشركات المفصح عنها لاتخاذ قراراتهم					
8.9 الكشف عن المعلومات الاجتماعية والبيئية هو أمر أولية أهمية كبيرة					
8.10 ينبغي للحكومة سن المزيد من القوانين والتشريعات لإجبار الشركات لتحمل قدر أكبر من المسؤولية الاجتماعية					
8.11 حجم الشركة يجب أن يؤثر على مقدار الإفصاح عن المسؤولية الاجتماعية (على سبيل المثال، الشركات الكبيرة يجب أن تفصح عن معلومات أكثر والعكس صحيح)					
8.12 نوع القطاع الاقتصادي للشركة من المرجح أن يؤثر على طبيعة ومقدار المعلومات المفصح عنها فيما يخص المسؤولية الاجتماعية للشركات					
8.13 يميل المدراء إلى إخفاء الأخبار السيئة					
8.14 في المستقبل، مختلف أصحاب المصالح سيقوموا باستخدام معلومات المسؤولية الاجتماعية للشركات بشكل أكبر عند اتخاذ قراراتهم					
8.15 يميل المدراء إلى الإفصاح عن معلومات المسؤولية الاجتماعية التي تخدم بشكل اساسي أصحاب المصالح ذوي النفوذ الأقوى					
8.16 يميل المدراء إلى الإفصاح عن معلومات المسؤولية الاجتماعية التي تخدم جميع أصحاب المصالح بشكل متساوي					

تابع السؤال 8: عبارات إضافية تخص مجموعات معينة:

البيان	5	4	3	2	1
<b>المساهمين والمستثمرين</b>					
8.17					لدي معرفة بما يعنيه مصطلح المسؤولية الاجتماعية للشركات
8.18					إنني أقدر تقديم هذا النوع من المعلومات من قبل الشركات
8.19					معلومات المسؤولية الاجتماعية للشركات تؤثر على قرارات الاستثمار الخاص بي
8.20					تعتمد قرارات الاستثمار الخاص بي بشكل أساسي على الأداء المالي للشركة
8.21					أنا أميل للاستثمار في الشركات التي لديها سمعة اجتماعية جيدة
<b>هيئة سوق المال</b>					
8.22					ينبغي على المملكة العربية السعودية أن تتابع التطورات التنظيمية في البلدان الأخرى وأن تسعى لتبني أفضل الممارسات
<b>الأكاديميين</b>					
8.23					تدريس الطلاب عن المسؤولية الاجتماعية للشركات قد يؤثر على سلوكهم تجاه الإفصاح عنها كمدرء أو موظفين في المستقبل
8.24					تدريس الطلاب حول المسؤولية الاجتماعية للشركات قد يزيد من الوعي بهذا الموضوع في المجتمع بأسره
8.25					يمكن أن يلعب الأكاديميون دوراً حيوياً في دفع الشركات والمديرين ليتحملوا قدر أكبر من المسؤولية الاجتماعية وذلك عن طريق إجراء البحوث فيما يتعلق بالمسؤولية الاجتماعية للشركات والإفصاح عنها في المملكة العربية السعودية

9- فيما يلي قائمة بالطرق الممكن استخدامها في الكشف عن المعلومات المتعلقة بالمسؤولية الاجتماعية للشركات، الرجاء تحديد إلى أي مدى توافق على كل مما يلي كأساليب مفيدة لك عند قراءة التقارير السنوية للشركات

1= لا أوافق بشدة  
2= لا أوافق  
3= لا رأي  
4= أوافق  
5= أوافق بشدة

الأساليب	5	4	3	2	1
9.1					مصطلحات وصفية (سرد وصفي)
9.2					مصطلحات إحصائية (أرقام وإحصاءات/ جداول إحصائية)
9.3					مصطلحات مالية (النقد)
9.4					رسوم بيانية
9.5					الصور

**10- الرجاء تحديد إلى أي مدى توافق على كل مما يلي كمواقع ممكنة للإفصاح عن المسؤولية الاجتماعية للشركات السعودية المساهمة**

1 = لا أوافق بشدة  
2 = لا أوافق  
3 = لا رأي  
4 = أوافق  
5 = أوافق بشدة

الموقع	1	2	3	4	5
10.1 كفكرة مستقلة بعنوان (المسؤولية الاجتماعية للشركات أو ما يمثّلها) ضمن محتويات التقرير السنوي					
10.2 في كتيب منفصل (على سبيل المثال: تقرير المسؤولية الاجتماعية، تقرير الاستدامة)					
10.3 إدراجها ضمن تقرير مجلس الإدارة في التقرير السنوي للشركة					
10.4 إدراجها ضمن إفصاحات القوائم المالية في التقرير السنوي للشركة					
10.5 إدراجها ضمن كلمة رئيس مجلس الإدارة أو الرئيس التنفيذي في التقرير السنوي للشركة					
10.6 إدراجها ضمن أي جزء آخر من التقرير السنوي (الرجاء التحديد .....)					

**11- الرجاء تحديد إلى أي مدى تتفق مع كل مما يلي كوسائل أو آليات يمكن استخدامها لتقديم الإفصاح عن المسؤولية الاجتماعية للشركات في سياق الشركات السعودية المساهمة**

1 = لا أوافق بشدة  
2 = لا أوافق  
3 = لا رأي  
4 = أوافق  
5 = أوافق بشدة

الآلية	1	2	3	4	5
11.1 ينبغي أن يظل الإفصاح اختياري للشركات					
11.2 ينبغي أن يظل الإفصاح اختياري للشركات مع تشجيعه من خلال إصدار الجهات التنظيمية للوائح الموضحة للممارسات الموصى بها					
11.3 ينبغي أن يكون الإفصاح إلزامي للشركات مع إعطاء سلطة تقديرية واسعة فيما يتعلق بتفاصيل الإفصاح					
11.4 ينبغي أن يكون الإفصاح إلزامي للشركات مع تحديد الحد الأدنى للإفصاح بناءً على حجم الشركة					
11.5 ينبغي أن يكون الإفصاح إلزامي للشركات مع تحديد الحد الأدنى للإفصاح بناءً على نوع القطاع الاقتصادي للشركة					

12- إذا كانت لديك أي ملاحظات أو إضافات بخصوص هذا الموضوع يرجى التكرم بكتابتها هنا

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- إذا كنت ترغب في الحصول على ملخص لنتائج هذا الاستبيان فيرجى كتابة العنوان البريدي أو البريد الإلكتروني الخاص بك

.....

.....

.....

- إذا كان لديك الرغبة لإجراء مقابلة معك حول هذا الموضوع فيرجى كتابة تفاصيل الإتصال المناسبة، واسم الشركة إن وجد

.....

.....

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شكرا جزيلا لكم على حسن تعاونكم

### Appendix 8.3: Response Frequencies on Each Statement of the Questionnaire Analysed by Stakeholder Groups

**Table 1: Level of importance assigned by Saudi Companies to purposes for producing the Annual Reports by Company Management**

Purposes		Managers					Employees					Shareholders/ Investors					The CMA					Academics				
		1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
1.1	To report to existing shareholders on the uses made of their funds and legality of those uses %	-	-	-	6	10	1	-	3	7	22	1	2	6	16	27	-	-	2	8	16	-	3	8	14	25
		0		0		100	3.03		9.09		87.88	5.77		11.54		82.69	0		7.69		92.31	6		16		78
1.2	To inform creditors about the financial position of the business %	-	-	2	6	8	1	1	2	14	15	-	1	8	20	23	-	1	1	12	12	-	1	6	20	23
		0		12.5		87.5	6.06		6.06		87.88	1.92		15.38		82.69	3.85		3.85		92.31	2		12		86
1.3	To help employees protect and advance their interests %	-	1	-	9	6	1	1	8	10	13	-	6	7	18	21	-	3	6	7	10	1	5	13	25	6
		6.25		0		93.75	6.06		24.24		69.70	11.54		13.46		75	11.54		23.08		65.38	12		26		62
1.4	To assist managers in managing the company %	-	-	1	7	8	-	2	5	11	15	-	1	6	16	29	-	2	5	6	13	1	2	12	23	12
		0		6.25		93.75	6.06		15.15		78.79	1.92		11.54		86.54	7.69		19.23		73.08	6		24		70
1.5	To assist potential investors in their investment decisions %	-	-	2	4	10	-	-	7	5	21	-	-	6	18	28	1	-	1	14	10	-	-	7	20	23
		0		12.5		87.5	0		21.21		78.79	0		11.54		88.46	3.85		3.85		92.31	0		14		86
1.6	To report to society at large in order to judge the actions and policies of the company %	-	-	3	6	7	-	1	5	14	13	1	5	14	18	14	1	2	3	10	10	1	7	6	17	19
		0		18.75		81.25	3.03		15.15		81.82	11.54		26.92		61.54	11.54		11.54		76.92	16		12		72
1.7	To assist in the negotiation of financial facilities with financial institutions %	-	-	1	9	6	-	2	3	13	15	-	1	7	22	22	-	1	1	9	15	-	2	1	25	22
		0		6.25		93.75	6.06		9.09		84.85	1.92		13.46		84.62	3.85		3.85		92.31	4		2		94

Purposes		Managers					Employees					Shareholders/ Investors					The CMA					Academics							
		1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5			
1.8	To report to the Income Tax and al Zakat department, as a basis for taxation and Zakat assessment %	-	-	1	4	11	-	-	7	5	21	-	1	7	12	32	-	1	2	7	16	1	-	3	24	22			
		0		6.25		93.75		0		21.21		78.79		1.92		13.46		84.62		3.85		7.69		88.46		2		6	
1.9	To assist government agencies and departments in debates about the public interest %	-	-	1	10	5	-	3	5	16	9	1	5	11	15	20	1	2	1	10	12	1	3	13	28	5			
		0		6.25		93.75		9.09		15.15		75.76		11.54		21.15		67.31		11.54		3.85		84.62		8		26	
1.10	To comply with the requirements of Islamic Shari'ah, which requires the disclosure of information related to the impact of a company's activities on society and the environment %	-	-	-	12	4	-	2	7	15	9	1	3	9	15	24	-	3	3	10	10	1	6	18	20	5			
		0		0		100		6.06		21.21		72.73		7.69		17.31		75		11.54		11.54		76.92		14		36	
1.11	For banks and financial services companies, and insurance companies, to provide information on their adherence to Shari'ah principles (e.g. riba and interest) %	2	3	-	5	6	1	3	7	6	16	-	4	8	15	25	-	3	4	7	12	1	4	13	24	9			
		31.25		0		68.75		12.12		21.21		66.67		7.69		15.38		76.92		11.54		15.38		73.08		10		26	
1.12	To provide information for sustainable development %	2	2	5	3	4	-	4	9	11	9	3	3	11	12	23	-	7	5	6	8	2	10	17	14	7			
		25		31.25		43.75		12.12		27.27		60.61		11.54		21.15		67.31		26.92		19.23		53.85		24		34	
1.13	To provide information for customers regarding the company's products, services and future prospects %	-	1	4	7	4	-	1	5	21	6	1	4	11	18	18	-	5	3	11	7	-	7	23	13	7			
		6.25		25		68.75		3.03		15.15		81.82		9.62		21.15		69.23		19.23		11.54		69.23		14		46	
1.14	To provide information for other business partners (e.g. suppliers) %	-	2	2	8	4	1	1	9	17	5	1	5	20	16	10	-	9	5	6	6	-	5	13	26	6			
		12.5		12.5		75		6.06		27.27		66.67		11.54		38.46		50		34.62		19.23		46.15		10		26	

**Table 2: Level of Importance to Wider Society of Disclosing CSR Items in Companies' Annual Reports**

CSR items		Managers					Employees					Shareholders/ Investors					The CMA					Academics				
		1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
2.1	Employee-related information %	-	-	-	9	7	-	-	8	9	16	1	6	19	17	9	-	2	5	10	9	-	8	5	27	10
		0		0		100		0		24.24	75.76		13.46	36.54	50		7.69	19.23	73.08		16	10	74			
2.2	Environmental Information- pollution %	1	1	1	6	7	1	3	5	10	14	5	7	9	14	17	1	1	4	8	12	2	4	4	21	19
		12.5		6.25		81.25		12.12		15.15	72.73		23.08	17.31	59.62		7.69	15.38	76.92		12	8	80			
2.3	Environmental Information- energy usage %	1	1	3	5	6	1	2	7	11	12	4	8	9	12	19	-	3	3	10	10	2	5	6	30	7
		12.5		18.75		68.75		9.09		21.21	69.70		23.08	17.31	59.62		11.54	11.54	76.92		14	12	74			
2.4	Environmental Information- conservation of natural resources %	2	2	2	7	3	1	3	3	11	15	4	5	10	13	20	1	3	2	10	10	2	4	5	25	14
		25		12.5		62.5		12.12		9.09	78.79		17.31	19.23	63.46		15.38	7.69	76.92		12	10	78			
2.5	Customer/product-related information %	-	1	2	11	2	1	2	3	19	8	-	6	18	16	12	-	2	6	11	7	1	-	18	25	6
		6.25		12.5		81.25		9.09		9.09	81.82		11.54	34.62	53.85		7.69	23.08	69.23		2	36	62			
2.6	Involvement with local communities %	1	-	1	9	5	1	2	3	17	10	1	5	9	23	14	-	2	5	9	10	1	2	11	15	21
		6.25		6.25		87.5		9.09		9.09	81.82		11.54	17.31	71.15		7.69	19.23	73.08		6	22	72			



**Table 3: Level of Agreement regarding the Right of Stakeholders to Information in Companies' Annual Reports about Actions that might affect them**

Stakeholders		Managers					Employees					Shareholders & Investors					The CMA					Academics						
		1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5		
3.1	People with an interest in social and environmental matters %	-	-	1	7	8	-	1	3	13	16	-	1	7	22	22	-	-	-	7	19	-	-	1	19	30		
		0		6.25		93.75		3.03		9.09		87.88		1.92		13.46		84.62		0		0		100		0		2
3.2	Shareholders %	-	-	-	4	12	-	1	1	6	25	-	-	1	15	36	-	-	-	3	23	-	1	-	12	37		
		0		0		100		3.03		3.03		93.94		0		1.92		98.08		0		0		100		2		0
3.3	Employees %	-	-	3	7	6	-	-	6	10	17	-	3	5	27	17	-	-	-	10	16	-	-	2	33	15		
		0		18.75		81.25		0		18.18		81.82		5.77		9.62		84.62		0		0		100		0		4
3.4	Customers %	-	2	1	8	5	-	-	8	11	14	-	4	7	22	19	-	-	3	8	15	-	1	6	34	9		
		12.5		6.25		81.25		0		24.24		75.76		7.69		13.46		78.85		0		11.53		88.46		2		12
3.5	Creditors/ Lenders %	-	2	2	6	6	-	-	4	10	19	1	2	10	11	28	-	-	3	5	18	-	1	7	20	22		
		12.5		12.5		75		0		12.12		87.88		5.77		19.23		75		0		11.53		88.46		2		14
3.6	Financial market investors %	-	-	-	6	10	-	-	1	7	25	-	1	2	15	34	-	-	-	6	20	-	-	1	14	35		
		0		0		100		0		3.03		96.97		1.92		3.85		94.23		0		0		100		0		2
3.7	Local communities %	-	-	-	11	5	1	2	2	19	9	1	2	11	21	17	-	1	1	9	15	-	1	2	23	24		
		0		0		100		9.09		6.06		84.85		5.77		21.15		73.08		3.85		3.85		92.31		2		4
3.8	Government agencies and departments %	-	-	2	2	12	1	-	3	9	20	-	-	5	16	31	-	-	2	6	18	-	-	2	16	32		
		0		12.5		87.5		3.03		9.09		87.88		0		9.62		90.38		0		7.69		92.31		0		4
3.9	Business partners (e.g. suppliers) %	-	1	2	9	4	1	1	4	14	13	-	1	8	25	18	-	1	3	8	14	-	1	3	37	9		
		6.25		12.5		81.25		6.06		12.12		81.82		1.92		15.38		82.69		3.85		11.53		84.62		2		6

**Table 4: Level of Agreement with Statements Concerning Companies**

Views		Managers				Employees				Shareholders/ Investors					The CMA					Academics						
		1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5					
4.1	Companies have responsibilities other than making profits %	2	1	-	7	6	4	3	-	14	12	1	8	4	14	25	-	3	-	11	12	1	1	1	20	27
		18.75	0	81.25	21.21	0	78.79	17.31	7.69	75	11.54	0	88.46	4	2	94										
4.2	Companies should bear some social responsibilities to justify their existence within the society %	-	-	-	5	11	-	-	-	15	18	-	1	1	15	35	-	-	-	8	18	-	2	-	20	28
		0	0	100	0	0	100	1.92	1.92	96.15	0	0	100	4	0	96										
4.3	Every company should be thought of as an entity whose existence and decisions can be justified in so far as they serve public or social purposes as well as private purposes %	-	-	2	4	10	1	-	4	16	12	-	3	3	28	18	-	-	1	11	14	-	2	2	25	21
		0	12.5	87.5	3.03	12.12	84.85	5.77	5.77	88.46	0	3.85	96.15	4	4	92										
4.4	Companies make use of natural resources so should insure that they use them responsibly %	-	-	-	5	11	-	1	2	12	18	-	1	2	13	36	-	-	-	7	19	-	1	-	15	34
		0	0	100	3.03	6.06	90.91	1.92	3.85	94.23	0	0	100	2	0	98										

**Table 5: Level of Importance of Potential Benefits to Companies that can be achieved by Reporting CSR Information**

Benefits to Companies		Managers					Employees					Shareholders/ Investors					The CMA					Academics				
		1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
5.1	Good reputation %	-	-	-	4	12	1	1	-	12	19	-	-	3	11	38	-	-	-	6	20	-	1	-	12	37
		0		0	100		6.06		0	93.94		0		5.77	94.23		0		0	100		2		0	98	
5.2	Better relationships with stakeholders %	-	-	-	9	7	-	1	1	21	10	-	3	4	18	27	-	2	1	6	17	-	1	1	25	23
		0		0	100		3.03		3.03	93.94		5.77		7.69	86.54		7.69		3.85	88.46		2		2	96	
5.3	Improved employee morale and loyalty %	2	-	2	6	6	1	1	3	9	19	2	1	7	18	24	-	1	4	6	15	-	1	7	27	15
		12.5		12.5	75		6.06		9.09	84.85		5.77		13.46	80.77		3.85		15.38	80.77		2		14	84	
5.4	Improved access to capital and funding %	1	-	-	10	5	-	2	5	16	10	-	2	4	21	25	1	1	3	7	14	-	-	9	31	10
		6.25		0	93.75		6.06		15.15	78.79		3.85		7.69	88.46		7.69		11.54	80.77		0		18	82	
5.5	Improved reputation with government and regulatory authorities %	-	-	-	3	13	-	1	-	12	20	-	-	4	14	34	-	-	-	6	20	-	-	4	22	24
		0		0	100		3.03		0	96.97		0		7.69	92.31		0		0	100		0		8	92	
5.6	Improved reputation with religious authorities %	-	-	1	5	10	2	-	5	12	14	-	1	5	15	31	-	1	2	7	16	-	-	9	31	10
		0		6.25	93.75		6.06		15.15	78.79		1.92		9.62	88.46		3.85		7.69	88.46		0		18	82	
5.7	Avoidance of media pressure %	-	-	-	4	12	1	1	4	8	19	-	-	5	16	31	-	-	1	4	21	-	2	7	13	28
		0		0	100		6.06		12.12	81.82		0		9.62	90.38		0		3.85	96.15		4		14	82	
5.8	Enhanced customer support and loyalty %	-	2	-	7	7	1	-	3	12	17	-	-	5	19	28	-	-	4	11	11	-	1	6	31	12
		12.5		0	87.5		3.03		9.09	87.88		0		9.62	90.38		0		15.38	84.62		2		12	86	

**Table 6: Level of Importance of Potential Benefits to Society that can be achieved by Reporting CSR Information**

Benefits to Companies		Managers					Employees					Shareholders/ Investors					The CMA					Academics				
		1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
6.1	Serving society at large (public right to information) %	-	-	-	7	9	-	1	3	22	7	-	1	8	17	26	-	-	-	9	17	1	-	2	16	31
		0		0		100	3.03		9.09		87.88	1.92		15.38		82.69	0		0		100	2		4		94
6.2	Serving customers %	-	-	3	7	6	-	-	7	16	10	-	1	9	26	16	-	-	4	7	15	1	-	9	29	11
		0		18.75		81.25	0		21.21		78.79	1.92		17.31		80.77	0		15.38		84.62	2		18		80
6.3	Guiding investment decisions %	-	-	-	5	11	-	2	5	12	14	-	-	9	16	27	1	-	1	5	19	1	3	-	16	30
		0		0		100	6.06		15.15		78.79	0		17.31		82.69	3.85		3.85		92.31	8		0		92
6.4	Protecting the environment %	-	-	-	7	9	1	2	3	14	13	1	1	5	14	31	-	-	1	7	18	1	2	-	19	28
		0		0		100	9.09		9.09		81.82	3.85		9.62		86.54	0		3.85		96.15	6		0		94
6.5	Raising awareness of social and environmental issues %	-	-	1	5	10	2	1	3	13	14	1	1	6	14	30	-	-	1	5	20	1	3	-	19	27
		0		6.25		93.75	9.09		9.09		81.82	3.85		11.54		84.62	0		3.85		96.15	8		0		92

**Table 7: Level of Agreement regarding Factors that may Deter Companies from Reporting CSR Information**

Reasons		Managers					Employees					Shareholders/ Investors					The CMA					Academics				
		1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
7.1	Absence of legal or similar regulatory requirement %	5	-	-	6	5	4	1	4	15	9	2	2	8	19	21	4	11	1	4	6	-	3	1	17	29
		31.25		0	68.75		15.15		12.12		72.73		7.69		15.38		76.92		57.69		3.85		38.46		6	2
7.2	Absence of accounting standards %	3	2	6	4	1	5	2	8	16	2	1	2	27	13	9	4	10	4	2	6	1	5	3	30	11
		31.25		37.5	31.25		21.21		24.24		54.55		5.77		51.92		42.31		53.85		15.38		30.77		12	6
7.3	Lack of demand for this type of information %	1	3	-	4	8	4	2	4	20	3	3	3	10	25	11	6	9	1	4	6	1	7	6	27	9
		25		0	75		18.18		12.12		69.70		11.54		19.23		69.23		57.69		3.85		38.46		16	12
7.4	Society's lack of awareness regarding this type of information %	2	1	-	4	9	3	1	4	12	13	1	5	1	19	26	4	8	-	4	10	-	7	3	18	22
		18.75		0	81.25		12.12		12.12		75.76		11.54		1.92		86.54		46.15		0		53.85		14	6
7.5	The cost of disclosing this type of information outweighs its benefits %	7	1	-	4	4	8	4	5	14	2	5	11	21	9	6	11	12	1	2	-	5	21	3	19	2
		50		0	50		36.36		15.15		48.48		30.77		40.38		28.85		88.46		3.85		7.69		52	6
7.6	Sensitive nature of this type of information %	4	2	2	5	3	6	12	4	9	2	2	18	12	15	5	12	12	-	2	-	11	22	2	12	3
		37.5		12.5	50		54.55		12.12		33.33		38.46		23.08		38.46		92.31		0		7.69		66	4
7.7	Administrative difficulties in preparing the report %	8	5	1	1	1	9	9	7	7	1	7	10	20	12	3	11	12	2	1	-	8	25	8	7	2
		81.25		6.25	12.5		54.55		21.21		24.24		32.69		38.46		28.85		88.46		7.69		3.85		66	16
7.8	Management does not appreciate its social responsibility %	5	7	-	3	1	8	5	2	13	5	5	5	7	25	10	2	9	1	7	7	-	8	8	29	5
		75		0	25		39.39		6.06		54.55		19.23		13.46		67.31		42.31		3.85		53.85		16	16
7.9	The lack of explicit guidance from the Board of Directors %	3	4	-	2	7	2	4	3	16	8	3	5	12	16	16	1	9	1	5	10	-	3	7	31	9
		43.75		0	56.25		18.18		9.09		72.73		15.38		23.08		61.53		38.46		3.85		57.69		6	14
7.10	The objectives of the company emphasise its economic rather than social performance %	2	-	-	9	5	1	3	4	7	18	4	1	7	20	20	2	8	2	2	12	-	3	3	22	22
		12.5		0	87.5		12.12		12.12		75.76		9.62		13.46		76.92		38.46		7.69		53.85		6	6
7.11	Possible intervention by central authorities %	4	-	2	6	4	4	6	13	7	3	4	5	19	16	8	9	12	3	1	1	2	30	6	8	4
		25		12.5	62.5		30.30		39.39		30.30		17.31		36.54		46.15		80.77		11.54		7.69		64	12

**Table 8: Level of Agreement Regarding Statements Related to CSR and Disclosure**

Statements		Managers					Employees					Shareholders & Investors					The CMA					Academics						
		1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5		
8.1	Management should contribute to a company's social and environmental responsibility %	-	-	-	4	12	-	1	1	11	20	-	-	1	19	32	-	-	-	4	22	-	1	-	18	31		
		0		0		100		3.03		3.03		93.94		0		1.92		98.08		0		0		100		2		0
8.2	Achieving greater environmental protection, even if it sometimes leads to less profit, should be accepted by a company %	-	-	1	6	9	-	4	3	15	11	1	2	3	19	27	-	-	-	4	22	-	1	2	33	14		
		0		6.25		93.75		12.12		9.09		78.79		5.77		5.77		88.46		0		0		100		2		4
8.3	Economic development should equitably meet development and environmental needs of present and future generations %	-	-	-	7	9	1	-	3	18	11	-	-	3	25	24	-	-	-	7	19	-	1	1	38	10		
		00		0		100		3.03		9.09		87.88		0		5.77		94.23		0		0		100		2		2
8.4	Social responsibility and environmental protection is an Islamic duty, which must be undertaken to protect human health and rights %	-	-	-	4	12	-	1	1	9	22	-	-	2	17	33	-	-	-	6	20	-	1	-	31	18		
		0		0		100		3.03		3.03		93.94		0		3.85		96.15		0		0		100		2		0
8.5	Some adverse effects on the environment from the production of goods and services are unavoidable %	9	-	-	2	5	2	2	2	18	9	6	7	8	21	10	7	3	2	5	9	-	17	2	26	5		
		56.25		0		43.75		12.12		6.06		81.82		25		15.38		59.62		38.46		7.70		53.85		34		4
8.6	The central authorities should regulate what companies disclose in terms of social and environmental performance %	-	-	-	6	10	-	1	3	12	17	-	-	3	22	27	1	-	1	5	19	-	1	1	12	36		
		0		0		100		3.03		9.09		87.88		0		5.77		94.23		3.85		3.85		92.31		2		2
8.7	The social and environmental responsibility of business is to increase its profits %	4	1	1	5	5	3	5	3	12	10	1	7	12	24	8	1	1	4	9	11	-	3	12	29	6		
		31.25		6.25		62.5		24.24		9.09		66.67		15.38		23.08		61.54		7.70		15.38		76.92		6		24
8.8	Stakeholders do use CSR information disclosed by companies to make their decisions %	-	5	1	4	6	-	11	6	9	7	-	5	11	27	9	2	4	1	18	1	-	25	10	10	5		
		31.25		6.25		62.5		33.33		18.18		48.49		9.62		21.15		69.23		23.08		3.85		73.08		50		20

Statements		Managers					Employees					Shareholders & Investors					The CMA					Academics				
		1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
8.9	Reporting of social and environmental information is a subject to which I have given substantial consideration %	-	1	-	3	12	-	5	4	11	13	-	4	5	25	18	-	1	1	7	17	-	1	3	36	10
		6.25		0	93.75		15.15		12.12	72.73		7.69		9.62	82.69		3.85		3.85	92.31		2		6	92	
8.10	Government should produce more codes and laws to force companies to be more socially responsible %	-	-	-	3	13	1	2	2	11	17	-	1	4	12	35	1	-	-	10	15	-	1	-	12	37
		0		0	100		9.09		6.06	84.85		1.92		7.69	90.38		3.85		0	96.16		2		0	98	
8.11	Size of a company should affect the amount of CSR disclosure (e.g. large companies should provide more information and vice versa) %	-	1	-	4	11	4	4	4	5	16	3	14	9	17	9	3	3	1	10	9	2	9	3	16	20
		6.25		0	93.75		24.24		12.12	63.64		32.69		17.31	50		23.08		3.85	73.08		22		6	72	
8.12	A company's economic sector is likely to affect the type and the amount of social responsibility information disclosed %	-	-	1	7	8	2	4	6	9	12	1	6	11	24	10	-	3	2	13	8	1	3	2	29	15
		0		6.25	93.75		18.18		18.18	63.64		13.46		21.15	65.38		11.54		7.69	80.77		8		4	88	
8.13	Managers tend to hide bad news %	1	-	4	3	8	-	4	3	10	16	-	2	3	18	29	-	-	-	11	15	1	1	5	13	30
		6.25		25	68.75		12.12		9.09	78.79		3.85		5.77	90.38		0		0	100		4		10	86	
8.14	In future, different stakeholders are more likely to use CSR information when making decisions %	-	-	3	11	2	-	3	10	14	6	-	1	14	26	11	3	1	1	18	3	-	-	6	42	2
		0		18.75	81.25		9.09		30.30	60.61		1.92		26.92	71.15		15.38		3.85	80.77		0		12	88	
8.15	Managers tend to report social responsibility information that mainly serves powerful stakeholders %	-	4	4	-	8	-	7	5	9	12	-	3	11	16	22	1	1	1	12	11	-	3	6	34	7
		25		25	50		21.21		15.15	63.64		5.77		21.15	73.08		7.69		3.85	88.46		6		12	82	
8.16	Managers tend to report social responsibility information that serves all stakeholder groups equally %	4	1	6	2	3	5	6	8	12	2	4	22	13	11	2	12	7	2	5	-	2	28	7	10	3
		31.25		37.5	31.25		33.33		24.24	42.42		50		25	25		73.08		7.69	19.23		60		14	26	

**Table 9: Level of Agreement Regarding Possible Methods that can be used to Disclose CSR Information**

Methods		Managers					Employees					Shareholders/ Investors					The CMA					Academics				
		1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
9.1	Narrative descriptions %	-	1	-	10	5	1	1	2	20	9	1	9	7	22	13	-	1	1	14	10	-	2	5	37	6
		6.25		0	93.75		6.06		6.06		87.88		19.23		13.46		67.31		3.85		3.85		92.31		4	
9.2	Physical quantities %	-	-	-	10	6	1	1	2	16	13	-	2	3	28	19	-	2	-	11	13	-	2	2	38	8
		0		0	100		6.06		6.06		87.88		3.85		5.77		90.38		7.69		0		92.31		4	
9.3	Monetary (financial terms) %	-	-	-	9	7	-	-	1	19	13	2	2	3	29	16	-	1	-	13	12	1	2	3	37	7
		0		0	100		0		3.03		96.97		7.69		5.77		86.53		3.85		0		96.15		6	
9.4	Graphical information %	1	-	-	9	6	-	2	2	17	12	1	3	1	32	15	-	1	-	12	13	-	1	-	42	7
		6.25		0	93.75		6.06		6.06		87.88		7.69		1.92		90.38		3.85		0		96.15		2	
9.5	Pictorial representation %	1	1	-	10	4	1	3	3	16	10	1	6	2	21	22	-	-	-	13	13	1	1	10	32	6
		12.5		0	87.5		12.12		9.09		78.79		13.46		3.85		82.69		0		0		100		4	



**Table 10: Level of Agreement Regarding Suitable Locations to Disclose CSR Information**

Locations		Managers					Employees					Shareholders/ Investors					The CMA					Academics				
		1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
10.1	In a separate section entitled ‘social responsibility’ (or equivalent) in the main annual report %	-	3	1	4	8	2	1	5	12	13	-	-	8	28	16	-	-	-	12	14	1	1	-	34	14
		18.75		6.25		75	9.09		15.15		75.76	0		15.38		84.62	0		0	100		4		0	96	
10.2	In a special separate booklet (e.g. social responsibility report; sustainability report) %	-	2	2	5	7	3	2	2	14	12	1	8	4	29	10	2	4	2	10	8	-	4	5	37	4
		12.5		12.5		75	15.15		6.06		78.79	17.31		7.69		75	23.08		7.69	69.23		8		10	82	
10.3	In the directors’ statement within the annual report %	-	3	4	7	2	3	4	3	16	7	-	2	4	33	13	-	1	3	14	8	-	3	7	37	3
		18.75		25		56.25	21.21		9.09		69.70	3.85		7.69		88.46	3.85		11.54	84.62		6		14	80	
10.4	In the notes to the financial statements within the annual report %	-	3	4	6	3	5	6	7	9	6	-	2	7	30	13	1	2	3	14	6	-	6	13	28	3
		18.75		25		56.25	33.33		21.21		45.45	3.85		13.46		82.69	11.54		11.54	76.92		12		26	62	
10.5	Included in the Chief Executive Officer or Chairman’s statement within the annual report %	3	5	4	3	1	5	6	4	12	6	6	8	8	21	9	7	8	4	6	1	3	10	24	11	2
		50		25		25	33.33		12.12		54.55	26.92		15.38		57.69	57.69		15.38	26.92		26		48	26	
10.6	In any other section within the annual report %	-	7	9	-	-	5	4	14	7	3	4	9	27	8	4	4	3	19	-	-	2	26	14	7	1
		43.75		56.25		0	27.27		42.42		30.30	25		51.92		23.08	26.92		73.08	0		56		28	16	

**Table 11: Level of Agreement Regarding Possible Frameworks by which CSR Information**

Mechanisms		Managers					Employees					Shareholders & Investors					The CMA					Academics				
		1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
11.1	It should remain totally voluntary for companies %	7	3	3	1	2	11	8	2	10	2	23	16	2	8	3	19	5	1	-	1	26	22	-	2	-
		62.5		18.75		18.75	57.58		6.06		36.36	75		3.85		21.15	92.31		3.85		3.85	96		0		4
11.2	It should remain voluntary but should be encouraged by the issuing of recommended codes of practice by regulatory agencies. %	7	1	-	5	3	6	5	1	13	8	13	22	5	8	4	14	8	2	1	1	9	35	3	2	1
		50		0		50	33.33		3.03		63.64	67.31		9.62		23.08	84.62		7.69		7.69	88		6		6
11.3	It should be mandatory for companies but with wide discretion given as to the detail disclosed %	5	2	-	5	4	6	6	3	12	6	-	7	3	28	14	2	4	1	14	5	1	5	-	31	13
		43.75		0		56.25	36.36		9.09		54.55	13.46		5.77		80.77	23.08		3.85		73.08	12		0		88
11.4	It should be mandatory for companies with specified minimum levels of reporting depending on company size %	1	4	-	6	5	5	4	3	7	14	-	6	4	28	14	1	3	-	11	11	-	7	1	30	12
		31.25		0		68.75	27.27		9.09		63.64	11.54		7.69		80.77	15.38		0		84.62	14		2		84
11.5	It should be mandatory for companies with specified minimum levels of reporting depending on economic sector %	1	3	-	7	5	2	6	2	6	17	-	3	7	26	16	2	1	-	8	15	-	1	-	33	16
		25		0		75	24.24		6.06		69.70	5.77		13.46		80.77	11.54		0		88.46	2		0		98

**Note:** The Table shows the number of responses in each choice for each statement and that for each group of the questionnaire response.